

Legislative Audit Division

State of Montana



Report to the Legislature

March 2000

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1999

Montana State University

All Campuses

This report contains 16 recommendations directed to the university. These recommendations address issues related to:

- ▶ Cash deposit and accounts receivable.
- ▶ Construction financing.
- ▶ Construction work in progress.
- ▶ Timely financial reporting.

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March 2000

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on Montana State University, including Montana State University-Bozeman, Montana State University-Billings, and Montana State University-Northern for fiscal years 1997-98 and 1998-99. The results of audit work at these three units have been combined in one document at the request of university management.

The report recommendations are addressed to Montana State University but relate to specific units as appropriate. This report includes recommendations regarding cash and accounts receivable controls, construction financing, construction work in progress, timely financial reporting, and related party transactions. The university's written response to the audit recommendations is included at the end of this report.

We thank university management and staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott A. Seacat", written over a horizontal line.

Scott A. Seacat
Legislative Auditor



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Legislative Audit Division

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1999

Montana State University

All Campuses

Members of the audit staff involved in this audit were Laurie Barrett, Jody Brandt, Jeane Carstensen-Garrett, Chris G. Darragh, Laurie H. Evans, John Fine, Geri Hoffman, Scott Hoversland, Cindy S. Jorgenson, Wayne Kedish, Charles Nemec, Emlyn Javornik, Laura L. Norris, Paul J. O'Loughlin, Julie M. Ripley, and Jenny Solem.

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Appointed and Administrative Officials

Board of Regents of Higher Education	Patrick P. Davison	Billings	2000
	Edwin H. Jasmin	Big Fork	2004
	Jeremy Fritz, Student Regent	Bozeman	2000
	Lynn Morrison-Hamilton	Havre	2006
	Richard Roehm	Bozeman	2005
	Margie Thompson	Butte	2003
	Deborah Wetsit	Billings	2001

Marc Racicot, Governor*

Nancy Keenan, Superintendent of Public Instruction*

*Ex officio members

Commissioner of Higher Education	Richard Crofts, Commissioner of Higher Education
	Joyce Scott, Deputy Commissioner for Academic and Student Affairs
	Rod Sundsted, Associate Commissioner for Fiscal Affairs
	Laurie Neils, Director of Budget and Accounting
	LeRoy Schramm, Chief Legal Counsel

Montana State University-Bozeman	Terry Roark, Interim President
	David Dooley, Acting Provost and Vice President for Academic Affairs
	Thomas Stump, Vice President for Administration and Finance
	Thomas McCoy, Vice President for Research and Creative Activities
	Leslie Taylor, Legal Counsel
	Dianna Wojtowicz, Controller

Montana State University-Billings	Ronald Sexton, Chancellor
	Janie Park, Provost and Academic Vice Chancellor
	Lee Peters, Vice Chancellor of Student Affairs
	Terrie Iverson, Administrative Vice Chancellor
	LeAnn Anderson, Director of Financial Services
	Jim Nielson, Director of Business Services

Montana State University-Northern	Michael Rao, Chancellor
	Roger Barber, Vice Chancellor for Academic Affairs
	Jody Hellegaard, Director of Fiscal Services

Montana State University-Great Falls College of Technology	Willard Weaver, Dean
	Mary Ellen Baukol, Assistant Dean for Business and Finance

Montana State University All Campuses

This financial-compliance audit report contains the results of our audit of the Montana State University campuses for the two fiscal years ended June 30, 1999. The report contains 13 recommendations to Montana State University (university), one recommendation to the Commissioner of Higher Education, one recommendation to the Board of Regents, and one recommendation for joint action by the Department of Administration, the Commissioner of Higher Education, and the university.

We issued unqualified opinions on the financial statements for Montana State University-Bozeman, Montana State University-Billings, and Montana State University-Northern for fiscal years 1997-98 and 1998-99. This means the reader may rely on the presented financial information.

The listing below serves as a means of summarizing the recommendations contained in the report, the university's response thereto, and a reference to the supporting comments.

Recommendation #1

We recommend the university define and implement additional internal controls at MSU-Bozeman to ensure the safeguarding of university assets within the central cashiering function. Page 12

University Response: Concur. See page D-4.

Recommendation #2

We recommend the university:

- A. Monitor deposit activity in the cashiers' cage and establish contingency plans at MSU-Bozeman to deal with increased activity to ensure timely deposits in compliance with state law.

University Response: Concur. See page D-4.

Report Summary

- B. Improve procedures to monitor and enforce
deposit requirements at campus departments. Page 14

University Response: Concur. See page D-4.

Recommendation #3

We recommend the university implement controls to
detect and correct errors in accounts receivable records
at MSU-Bozeman in order to safeguard accounts
receivables. Page 15

University Response: Concur. See page D-5.

Recommendation #4

We recommend the university initiate additional
collection procedures on accounts in its bad debt file
at MSU-Bozeman. Page 16

University Response: Concur. See page D-5.

Recommendation #5

We recommend the Commissioner of Higher Education
propose amendments to board policy which define
terms used to designate funding sources to achieve
consistency in university capital projects authorizations
and appropriations. Page 18

Commissioner of Higher Education Response: Concur. See page D-12.

University Response: Concur. See page D-5.

Recommendation #6

We recommend the university follow state law applicable
to advertising, bidding, approval, and supervision of
construction of athletic facilities projects at
MSU-Bozeman. Page 19

University Response: Concur. See page D-5.

Recommendation #7

We recommend the Board of Regents require university units to specify funding sources for proposed construction projects. Page 21

Board of Regents Response: Concur. See page D-12.

University Response: Concur. See page D-6.

Recommendation #8

We recommend the university's MSU-Bozeman campus:

- A. Implement procedures to assure the accuracy of construction work in progress recorded on the accounting records.

University Response: Concur. See page D-6.

- B. Develop procedures to expedite preparation of its annual financial statements.

University Response: Concur. See page D-6.

- C. Work with the Department of Administration to resolve the difference in reporting land and land improvements.

University Response: Concur. See page D-6.

Department Response: Concur. See page D-13.

- D. Coordinate responsibility for the financial reporting function. Page 24

University Response: Concur. See page D-6.

Report Summary

Recommendation #9

We recommend the university:

- A. Determine the amount of and maintain accountability for MSU-Bozeman assets managed, revenues received, and expenses paid by the Research & Development Institute.

University Response: Concur. See page D-7.

- B. Include provisions in the contract with the Research & Development Institute to ensure MSU-Bozeman receives timely information on assets managed, revenue received, and expenses paid. Page 26

University Response: Concur. See page D-7.

Recommendation #10

We recommend the Department of Administration, the Commissioner of Higher Education, and MSU-Bozeman evaluate whether the assets and financial activity of the Research & Development Institute should be included in MSU-Bozeman financial statements and the state's Comprehensive Annual Financial Report. Page 29

Department Response: Concur. See page D-13.

Commissioner of Higher Education Response: Concur. See page D-12.

University Response: Concur. See page D-8.

Recommendation #11

We recommend the university complete a reconciliation of detail and summary information at fiscal year-end and resolve any differences between its grants system at MSU-Bozeman and the state's records on a timely basis. . . Page 30

University Response: Concur. See page D-8.

Recommendation #12

We recommend the university:

- A. Ensure the MSU-Bozeman property manager follows requirements related to disposal of assets purchased with federal funds.

University Response: Concur. See page D-8.

- B. Use depreciation in calculating MSU-Bozeman motor pool rates as required by federal regulations.

University Response: Concur. See page D-8.

- C. Charge payroll costs to grants at MSU-Northern based upon certified time and effort reports. Page 32

University Response: Concur. See page D-8.

Recommendation #13

We recommend the university establish controls at MSU-Northern to ensure payroll input and approval is supported by supporting documentation. Page 33

University Response: Concur. See page D-9.

Recommendation #14

We recommend the university record expenditure abatements at MSU-Bozeman only for those transactions allowed by state and university policy. Page 35

University Response: Concur. See page D-9.

Recommendation #15

We recommend the university comply with state law by ensuring loans payable, construction work in progress, and library books are recorded on the state's accounting records in compliance with state accounting policy. Page 36

University Response: Concur. See page D-9.

Report Summary

Recommendation #16

We recommend the university develop procedures for each campus with fixed responsibility for reporting apparent and suspected thefts in compliance with state law. Page 37

University Response: Concur. See page D-10.

Introduction

Audit Objectives

We performed a financial-compliance audit of Montana State University (the university), all campuses, for the two fiscal years ended June 30, 1999. The objectives of the audit were to:

1. Make recommendations for improvements in the internal and management controls of the university.
2. Determine if the university complied with applicable laws and regulations.
3. Determine the implementation status of prior audit recommendations.
4. Determine if the financial statements present fairly the financial position and results of operations of each university campus for the two fiscal years ended June 30, 1999.

In accordance with section 5-13-307, MCA, we analyzed the costs of implementing the recommendations made in this report. Each report section discloses the cost, if significant, of implementing the recommendation.

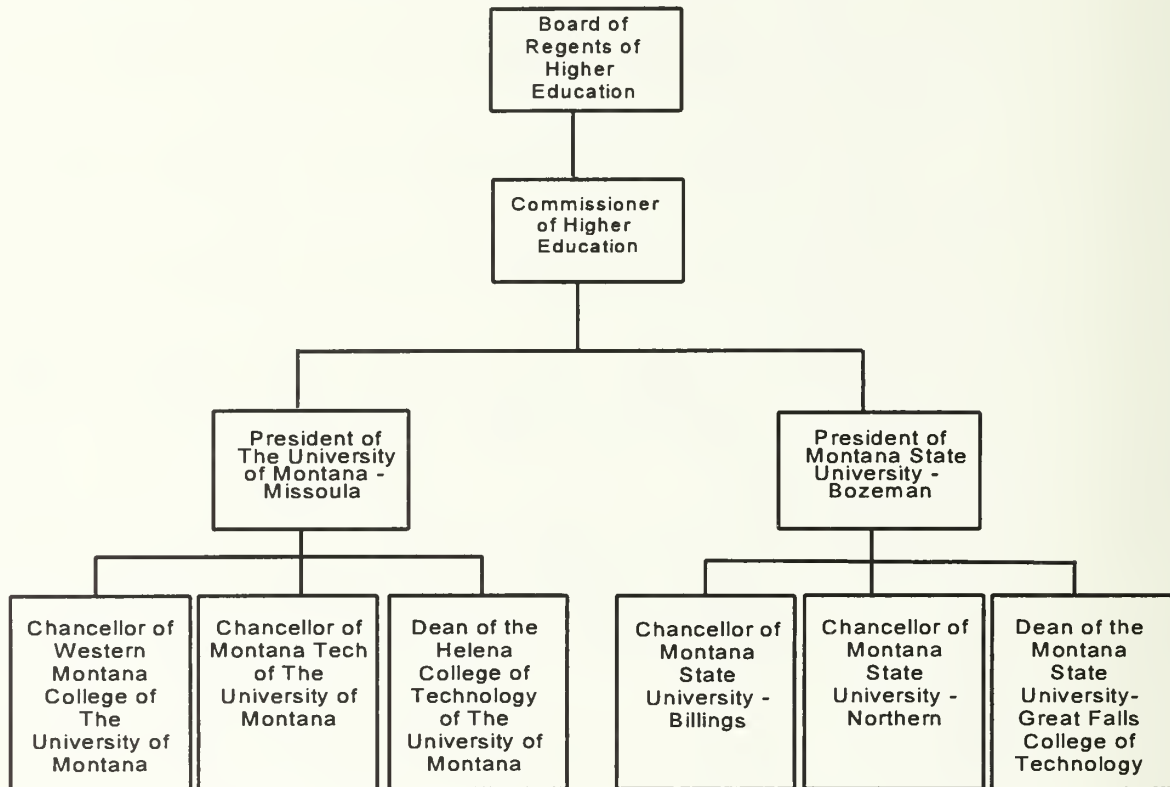
Other areas of concern deemed not to have a significant effect on the successful operation of university programs are not specifically included in the report but have been discussed with management.

Background

The Board of Regents of Higher Education approved the restructuring of the Montana University System in January 1994. The following chart documents the organization of the entire Montana University System during our audit period.

Figure 1

Montana University System Organizational Chart



Source: Compiled by the Legislative Audit Division from university information.

Montana State University

Montana State University consists of the following four units:

- MSU-Bozeman, including the Bozeman campus, the Agricultural Experiment Station, and the Extension Service.
- MSU-Billings, including the College of Technology.
- MSU-Northern at Havre and Great Falls.
- MSU-Great Falls College of Technology.

These units are accredited by the Commission on Colleges of the Northwest Association of Schools and Colleges. MSU's four units provide diverse undergraduate and graduate academic and vocational-technical programs to students, as described below.

Montana State University-Bozeman

The MSU-Bozeman campus was founded in February 1893 as the Agricultural College of the state of Montana. The university is a land-grant institution, authorized by the Morrill Act of 1862, and receives part of its support from land-grant income. The campus offers instruction leading to bachelor, master, and doctorate degrees.

MSU-Bozeman's public service function originated with the establishment of the Extension Service in 1915, and was created under the federal Smith-Lever Act and state legislation. Financial support for the Extension Service's operation comes from county, state, and federal governments, as well as from private grants. County agents and specialists are an integral part of the university and channel information to Montanans to aid in solving home, farm, and community problems. In January 1990, administrative control of the Fire Services Training School, located in Great Falls, was transferred from the Board of Public Education to the university's Extension Service.

The Agricultural Experiment Station is also an integral part of the university. It was established in 1893 by the Montana Legislature under authorization provided by the federal Hatch Act of 1887. The station receives federal funds under the Hatch Act, as well as state

Introduction

appropriations, federal and private grants, and funds from the sale of surplus agricultural products. The Agricultural Experiment Station has eight locations around the state, in addition to the Bozeman campus. These research stations are devoted to solving agricultural and land reclamation problems of local, regional, and national concern. The distribution of research centers allows consideration of problems peculiar to various soil, water, and climate conditions in the state.

The university has several other specialized research facilities on the Bozeman campus. These include the Center for Biofilm Engineering, EPSCOR Plant Biotechnology, Local Technical Assistance Program, Montana Water Center, MSU TechLink Center, and the Thermal Biology Institute.

The university offers educational opportunities through its Extended Studies program to individuals not regularly enrolled. An annual summer session and certain specialty oriented, noncredit offerings are also part of the campus program. The Museum of the Rockies, a nonprofit corporation affiliated with the university, provides educational opportunities, particularly for school age children.

Montana State University-Billings

MSU-Billings consists of five colleges: the College of Arts and Sciences; the College of Business; the College of Education and Human Services; the College of Technology; and the College of Professional Studies and Lifelong Learning. MSU-Billings offers a full complement of one and two-year certificate programs, associate degrees, and bachelor and master degrees, as well as pre-professional academic offerings in a number of fields. Several academic programs are unique to the Montana University System.

MSU-Billings is fully accredited by the Northwest Association of Schools and Colleges. It is accredited by the National Council for the Accreditation of Teacher Education for preparing elementary and secondary teachers through the Master of Education degree and the Master of Science in Special Education degree. MSU-Billings is also accredited by the National Association of Schools of Music, the National Association of Schools of Art and Design, and the Council

on Rehabilitation Education. College of Technology programs are approved by the National Institute for Automotive Service Excellence and the Montana Board of Nursing.

Public service is integral to the mission of MSU-Billings. Its two primary public service entities are KEMC Public Radio and the Montana Center on Disabilities, a comprehensive education, rehabilitation, and diagnostic center serving individuals with disabilities.

Montana State University- Northern

MSU-Northern is a regional, multipurpose educational center serving students who seek both a technical and liberal arts education. MSU-Northern offers programs at the associate, bachelor, and master degree levels. A master's program is offered in education, with options in counseling and development, elementary education, vocational education, and general science. Graduate education includes a fifth-year program for elementary and secondary teachers.

MSU-Northern offers courses at two locations, the campus in Havre and an extended campus in Great Falls, as well as long-distance learning via compressed, interactive video. MSU-Northern at Great Falls includes an environmental training center.

Montana State University- Great Falls College of Technology

The MSU-Great Falls College of Technology offers instruction leading to certificates in one-year programs and associate of applied science degrees in two-year programs in vocational-technical trades and industry. Programs include practical nursing, office/secretarial, interior design technology, computer and information sciences, various health-related programs, auto body repair and refinishing, and business management/entrepreneurship.

Introduction

Full-Time Equivalent Faculty and Students

Montana State University reported actual employee FTE (full-time equivalent positions) of 3,632 for fiscal year 1999. Contract faculty positions, which include part-time, visiting, full-time teaching faculty, and state supported research faculty, totaled 1,154.

The following table lists full-time equivalent students by campus.

Table 1
Montana State University
Annual Student FTE by Campus

<u>Campus</u>	<u>Fiscal Year</u>	
	<u>1998</u>	<u>1999</u>
MSU-Bozeman		
Resident	7,490	7,600
Nonresident	<u>2,719</u>	<u>2,773</u>
Total	<u>10,209</u>	<u>10,373</u>
MSU-Billings		
Resident	3,661	3,578
Nonresident	<u>212</u>	<u>266</u>
Total	<u>3,873</u>	<u>3,844</u>
MSU-Northern		
Resident	1,401	1,411
Nonresident	<u>89</u>	<u>90</u>
Total	<u>1,490</u>	<u>1,501</u>
MSU-Great Falls College of Technology		
Resident	703	745
Nonresident	<u>2</u>	<u>5</u>
Total	<u>705</u>	<u>750</u>
Grand Totals MSU		
Resident	13,255	13,334
Nonresident	<u>3,022</u>	<u>3,134</u>
Total FTE	<u>16,277</u>	<u>16,468</u>

Source: Compiled by the Legislative Audit Division from university information.

Funding Sources

University system Current Unrestricted General Operating Subfunds revenue includes state general fund, millage, and tuition and fees, which are specifically appropriated by the legislature. Current Funds also include designated, auxiliary, and restricted activity. General Fund and millage appropriations to Montana State University are based upon the anticipated number of resident students and the cost of educating students. The appropriation support is based upon an analysis of faculty salaries in states with similar per capita income, the academic program offerings of the university, the necessary support expenditures, including Academic Support, Student Services, Institutional Support, Plant Operating and Maintenance, and the proportion of the cost of education to be paid by resident students.

General Fund and millage appropriations are dedicated to the support of resident students only. Resident students at the university pay approximately 37 percent of the average expenditures per student from the current unrestricted operating funds. Nonresident students at the university pay 113 percent of the average expenditures per student from the Current Unrestricted General Operating Subfunds in fiscal year 1998-99.

Prior Audit Recommendations

Prior Audit Recommendations

Our office performed financial-compliance audits of MSU-Bozeman, MSU-Billings, and MSU-Northern for the two fiscal years ending June 30, 1997. The resulting report contained 13 recommendations to the university. Of these recommendations, nine have been implemented, one has been partially implemented, and three have not been implemented. Issues related to accountability for MSU assets held by the Research Development Institute (page 24), reconciliation between the grants subsystem and the state's accounting records (page 29), and expenditure abatements (page 34) are discussed further in this report.

Findings and Recommendations

Improving Controls Over Cash and Accounts Receivable

University management is responsible for establishing an adequate system of internal control. Management is also responsible for timely monitoring of operations to ensure the controls are used in the day-to-day transaction processing cycles. An internal control system should provide management with reasonable, but not absolute, assurance that resource use is consistent with laws and regulations; assets are safeguarded; and reliable data is obtained, preserved, and disclosed. Because of inherent limitations in any control environment, errors and irregularities may occur; however, a good system of internal control should mitigate the risk of such errors and irregularities and provide for their detection on a timely basis.

We identified areas where the university should enhance control over cash collections, bank deposits, central accounts receivable, and collection of bad debts. The following sections discuss our findings.

Controls Over Cashiering

During the audit period, management of MSU-Bozeman identified and corrected control deficiencies in the central cashiering function in the business office related to cashing of personal checks and limiting access to the cashier area to authorized personnel. In coordination with university internal audit, we reviewed operations and controls at the central cashiering area in the business office and found that cashiers transact business on each other's cash drawers and computer workstations; the safe combination is only changed when a new cashier is hired; management does not perform unannounced cash counts; and if there is a problem with a deposit, the bank calls the cashier who prepared it. Good management practices require internal controls over cash collections to ensure that money is properly accounted for and safeguarded against theft.

When more than one individual processes transactions and handles cash in an individual cashiering station, it is difficult to affix responsibility for errors and cash discrepancies. If differences in deposits are found at the bank, management should first be notified, then the supervisor can work with the cashier who prepared the

Findings and Recommendations

deposit to reconcile the discrepancy. In addition, periodic unannounced cash counts and safe combination changes let employees know that management monitors the integrity of the implemented control procedures.

Cashiering personnel indicated that cashiers trust each other and sometimes need access to another work station if a processing problem occurs. A supervisor said the cashiers count the safe weekly and management changes the combination when a new cashier is hired. Financial managers also said they intend to review and potentially redefine current processes within the business office as the Banner Finance system is implemented. Part of this process will include an evaluation of internal controls to guard against misappropriation of university assets.

Recommendation #1

We recommend the university define and implement additional internal controls at MSU-Bozeman to ensure the safeguarding of university assets within the central cashiering function.

Timeliness of Deposits

In September 1999, the university's internal audit staff conducted an inventory of the contents of the cashier's safe in the business office. Internal audit staff found a backlog of receipts delivered from various departments on campus to be processed and deposited in the bank. The inventory was conducted on September 15, and there were bags in the safe with receipt dates ranging from September 2 to September 14. University internal audit determined the total amount of receipts not yet deposited was approximately \$941,000. The lost interest estimated by internal audit staff was approximately \$1,800. In addition to issues concerning lost interest and compliance with state law, holding excessive cash on hand increases the risk of loss or theft.

During the inventory process, the university audit staff identified several departments which were not depositing funds on a timely basis in accordance with state law. The audit staff notified the

Findings and Recommendations

respective departments by memorandum. We found other instances of noncompliance with deposit requirements when we conducted an inventory of items in the cashiers' cage on November 16, 1999.

The following documents our findings: A \$517.75 travel reimbursement check, which had been delivered to the cashier on November 10, was still in the safe. It was issued to the university by an employee and was being held until the accounting technician responsible for travel transactions returned to work. We found the business office mail clerk had delivered two batches of checks to the cashier, one on November 5 and one on November 8, amounting to approximately \$2,784 and \$4,390, respectively. The checks were for loan payments to be processed by the university loan service center. Section 17-6-105, MCA, requires entities to make deposits each day when there is \$100.00 or more in cash or \$500.00 or more in cash and checks, or at least weekly regardless of the amount collected.

University management said they plan to train additional business office staff and/or hire part-time employees to assist in the cashiering function during student registration peak workload periods. Personnel said that the delay occurred in cashiering because of the start of a new school year, the introduction of the new Banner Finance system, and the lack of staff to adequately handle work and make the deposits on time. Other individual department and business office personnel cited infrequent depositing activity, delays in properly identifying to which accounts payments should be posted, and lack of notification that items were in the safe as reasons for late deposits.

Business office personnel stated and accounting personnel confirmed that there is an uncleared collection account for departments to use when funds received have not been identified as to source and purpose. University financial management said the uncleared collection account is used frequently. Use of this account permits immediate deposit of funds while staff determine the account where funds should be posted or when staff who normally handle activity are absent.

Findings and Recommendations

Recommendation #2

We recommend the university:

- A. Monitor deposit activity in the cashiers' cage and establish contingency plans at MSU-Bozeman to deal with increased activity to ensure timely deposits in compliance with state law.**
- B. Improve procedures to monitor and enforce deposit requirements at campus departments.**

Accounts Receivable

MSU-Bozeman maintains accounts for amounts receivable from students for deferred fees, housing rent, telephone service, lab fees, parking fines and other services. These accounts originate at various points around campus and are consolidated into a central accounts receivable ledger. In addition, the university has accounts receivable resulting from vendor overpayments and services provided to outside parties. The following two sections discuss situations in which management and control of accounts receivable by MSU-Bozeman can be improved.

Business Office Controls

In the fall of 1997, MSU-Bozeman personnel uncovered several schemes by which an employee of the business office allegedly stole funds from the university. An internal audit documented numerous instances of lapping and some instances of exchanging unrecorded check receipts for cash. In a lapping scheme, the perpetrator takes a portion of a receipt on one account receivable and records it as a payment on another account from which the payment has been stolen. Both types of fraud occur when an employee has access to cash payments, maintains account records, and can adjust account balances.

Following disclosure of the alleged fraud, internal audit recommended and business office personnel implemented several procedures to reduce risk of similar thefts in the future. To ensure segregation of accounting cash handling duties, accounts receivable clerks no longer receive checks to prepare deposits until after the

Findings and Recommendations

checks have been restrictively endorsed by the business office mail clerk. In addition, duties of receivable clerks no longer include adjustment or write-off of receivables. To tighten control over refunds, receivable clerks cannot approve Vendor Purchase Authorizations (VPA). In the fraud, the employee initiated and approved VPAs and received the checks, allowing the conversion of receivables into cash.

The internal audit disclosed the monthly accounts receivable reconciliation procedure involved reconciling information provided by the accounts receivable clerk to the state's accounting records, to which the employee could initiate adjustments. System exception reports were not used to identify accounting entries which did not meet documentation standards, such as journal entries which did not have a cash receipt number or other supporting information. In addition, the Central Accounts Receivable program allowed users to modify key fields of data, including customer balance, charges, and payments with no audit trail.

University management said these items would be addressed after the conversion to the Banner Financial system. The Banner system appears to have good audit trails imbedded within its software, management said. While we agree that extensive revision of a system scheduled for replacement in six months would be inefficient, we believe implementation of procedures for management review for errors and irregularities is essential to prevent further loss of assets. As of November 1999, five months into the Banner implementation, neither exception report reviews nor reconciliation procedures were in place.

Recommendation #3

We recommend the university implement controls to detect and correct errors in accounts receivable records at MSU-Bozeman in order to safeguard accounts receivables.

Findings and Recommendations

Bad Debt File

MSU-Bozeman maintains a Master Bad Debt File (file), consisting of debts older than one year. Although these accounts are removed from the accounting records, business office personnel maintain the file to place holds on students with debts who try to register for classes at MSU, request income tax offsets from the Montana Department of Revenue, and track payments that are made.

During our audit, we noted that the university has not defined procedures to manage the file and related collection procedures under the Banner Finance system placed in service July 1, 1999. We found that business office management could provide current summary information on the file such as the age of accounts, percentage of amount owed by type of debt, or the status of collection activity on accounts prior to July 1, 1999. However, we noted that none of the accounts on the file had been sent to the collection agency hired by MSU to collect delinquent accounts.

Business office personnel said that they did not have the staff resources required to assemble information to forward to the collection agency. As of November 1999, we estimated \$704,000 of the approximately \$1,022,000 in bad debts were in accounts greater than \$1,000. If these were sent to collection and 50 percent were collected, we estimated the university could recoup in excess of \$175,000 after paying the collection agency its fee. If the university used the Department of Revenue rather than a collection agency, MSU-Bozeman would only pay an eight percent fee on the collected amounts, thereby increasing its recoveries. Initiating collection action on the bad debt file would be cost-effective.

Recommendation #4

We recommend the university initiate additional collection procedures on accounts in its bad debt file at MSU-Bozeman.

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Athletic Complex

Chapter 478, section 2, Laws of 1995, authorized \$12,000,000 of “private funds” to renovate or construct the athletic complex at MSU. Section 1 of this law exempted MSU-Bozeman from state contracting requirements in Title 18, chapters 2 and 8, for project design and construction of the stadium. The exemption allowed MSU flexibility in letting construction contracts for the stadium. The following two sections discuss issues related to athletic complex projects at MSU-Bozeman.

Definition of Funding Terms

Chapter 478, section 1, Laws of 1995, specifically exempted the stadium construction from state contracting and building laws. On September 1, 1997, MSU signed a contract to build the stadium. MSU-Bozeman used bond proceeds to build the stadium. Using authority granted by section 20-25-402, MCA, the Montana Board of Regents (board) approved debt financing of \$8.255 million in November 1997 for Phase II of stadium renovation and construction. MSU personnel stated there was no conflict between Chapter 478, section 2, authorization for “private funding” and MSU use of bond funds because of budget office approval. Under Chapter 478, section 3, Laws of 1995, the board certified to the budget director that project agreements guarantee no commitment of “state appropriated” funds for design, construction, operations, or maintenance is expressed or implied.

A member of the Long Range Building Committee said MSU stated during hearings on the Chapter 478 legislation that a major fund drive would solicit and collect donations for the stadium. At no time was the sale of bonds mentioned during the hearings, the legislator said. Budget office officials said legislators were led to believe the stadium would be financed primarily through donations.

The budget director said he has interpreted “state appropriated” to mean current unrestricted funds for purposes of the certification required by Chapter 478, section 3. Budget office officials said there was confusion about the meanings of such terms as “private funds,” “state funds,” and “plant funds” as used in university

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appropriation legislation. Staff of the Commissioner of Higher Education (CHE) stated “private funds” are not defined in board policy.

Because funding sources are used by university units when they request expenditure and project authorization from the Board of Regents and the legislature, clear definitions of the funding source terms used in resolutions and legislation to authorize projects are essential for all parties authorizing projects to have consistent knowledge of the source of funding.

Recommendation #5

We recommend the Commissioner of Higher Education propose amendments to board policy which define terms used to designate funding sources to achieve consistency in university capital projects authorizations and appropriations.

Contracts for Nonexempt Projects

Although Chapter 478, section 2, Laws of 1995, authorized funds for the MSU athletic complex, the exemption from state purchasing requirements granted by section 1 of this act specifically applies to the renovation or construction of a stadium. We noted an instance where MSU recommended, and the Board of Regents approved, the award of a separate \$250,000 contract for a 1,524-square-foot tennis support facility without a bid. Citing Chapter 478 as authorization, MSU contracted with the same contractor who built the stadium. Located adjacent to the existing tennis bubble, the tennis support facility will contain locker room and restroom facilities for both men and women.

Section 18-2-103(1), MCA, requires the Department of Administration to solicit, accept, and reject bids and award all contracts to the lowest qualified bidder for buildings costing more than \$150,000. Since the athletic facilities other than the stadium were included in the \$12 million authorization in Chapter 478, section 2, MSU officials said the exemption and certification provisions of sections 1 and 3, respectively, also applied to the

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tennis support facility project. We noted MSU followed the certification requirements of Chapter 478, section 3, but the exemption from construction contracting provisions specified a stadium and does not refer to other athletic facilities projects.

MSU financial management directed that the student weight room project, estimated to cost more than \$1 million, be advertised and bid.

Recommendation #6

We recommend the university follow state law applicable to advertising, bidding, approval, and supervision of construction of athletic facilities projects at MSU-Bozeman.

Centennial Mall

The university's Centennial Mall project landscaped the street in the center of the MSU-Bozeman campus. The Centennial Mall included campus entrances, walkways, benches, artwork, and landscaping designed to create a park-like setting. In May 1988, the Board of Regents (board) approved the use of \$25,000 in donations for mall planning. The legislature authorized \$650,000 of private endowments in 1989 and \$1,600,000 of "plant funds" in 1991 for the mall project. Plant funds are resources available to the university for application to additions and improvements of the physical plant.

As of June 30, 1999, MSU-Bozeman had committed \$1,233,861 to the Centennial Mall project from the following sources.

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Table 2
Centennial Mall - Funding Sources

Donations Direct to MSU	\$ 101,700
Donations through the MSU Foundation	212,971
Unrestricted Fund-Major Maintenance Account	480,300
Unrestricted Fund-VP Administration & Finance	17,819
Other Lawful Purpose Funds (Auxiliary Revenue)	<u>421,071</u>

TOTAL **\$ 1,233,861**

Source: **Compiled by Legislative Audit Division from university records.**

The May 1988 resolution stated MSU's intention to finance both the design fees and eventual Centennial Mall project costs with nonappropriated funds, primarily from private endowments. In submitting the 1991 authorization, the board did not specify the source of funds. An MSU official testified to the House Long Range Building Subcommittee on January 16, 1991, that Centennial Mall funding had come from the Second Century fundraising campaign and said the groves and landscaping were salable to donors, while bricks and mortar were not. As shown above, \$498,119, or 40.37 percent of the funds provided, came from appropriated sources in the unrestricted fund. Another \$421,071, or 34.13 percent, came from auxiliary operations. The remaining funding came from donations.

The use of maintenance funds from the appropriated budget for Centennial Mall new construction during fiscal year 1996-97 and 1997-98 is inconsistent with legislative action to finance maintenance costs. In 1991, the legislature enacted section 17-7-304(2), MCA, which authorized the use of reverted appropriated funds for deferred maintenance projects approved and prioritized by the board. By using appropriated maintenance funds for Centennial Mall construction, MSU increased the deferred maintenance backlog of the university system.

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To prioritize proposals for the use of resources, the legislature and the board need to know the financing sources of proposed projects. The university should specify the funding sources when seeking legislative authorization or board approval for major construction projects.

Recommendation #7

We recommend the Board of Regents require university units to specify funding sources for proposed construction projects.

Financial Reporting

Each year, MSU-Bozeman personnel prepare financial statements for the university taken as a whole and financial statements for accounts related to bond issuances. In addition, financial personnel of the university work with Department of Administration to furnish information used in the state's Comprehensive Annual Financial Report (CAFR). We noted several instances where untimely and inaccurate information impacted compliance with state law related to CAFR preparation and efficient use of state resources.

Construction Work in Progress

MSU-Bozeman completed construction of major buildings and infrastructure improvements on campus during the two years ended June 30, 1999. As required by state law, much of this activity is administered by the Department of Administration's Architecture and Engineering Division (department). For projects funded with revenue bonds, grants, donations, or other university sources, the department records the expenses in accounts which post to accounting records kept by MSU. For projects financed with general obligation bonds or from the long range building account, the department provides reports on the expenses to MSU.

Under state law, MSU is required to process all necessary transactions to the accounting system before the accounts close at the end of the fiscal year to ensure money and property for which the university is responsible is recorded in accordance with generally accepted accounting principles. These principles require amounts expended for long life assets, such as buildings, steam

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tunnels, and parking lots, be recorded as construction work in progress. When the construction is completed, the asset should be reclassified as either a building or an improvement.

We found significant errors in recording fixed asset activity on the state's accounting records at MSU-Bozeman in both fiscal years 1997-98 and 1998-99. In fiscal year 1997-98, improvements were understated by \$6,163,474, buildings were understated by \$36,403,431, and construction work in progress was overstated by \$42,950,000 in the Net Investment in Plant Fund. In addition, construction work in progress was overstated by \$3,846,258 and improvements were understated by \$164,989 in the Unexpended Plant Fund. In fiscal year 1998-99, improvements were understated by \$5,483,298, buildings were understated by \$18,125,378, and construction work in progress was overstated by \$23,843,816 in the Net Investment in Plant Fund. Also, construction work in progress was overstated by \$16,135,571 in the Unexpended Plant Fund.

The errors resulted from recording the value of some assets incorrectly, recording construction work in progress in the Net Investment in Plant Fund without capitalizing the expenses in the Unexpended Plant Fund, and recording buildings and improvements for projects for which construction work in progress had been posted in previous periods without reclassifying the construction work in progress.

Incomplete Financial Reporting

The Department of Administration Accounting Bureau compiles the Comprehensive Annual Financial Report (CAFR) from the state's accounting records. Section 17-1-102(4), MCA, requires the university to input all transactions necessary to present the receipt, use, and disposition of all property in accordance with generally accepted accounting principles. Section 17-2-110(2) states that each agency shall prepare such financial records and reconciliations for the fiscal year as the Department of Administration may prescribe.

The department requested that the university furnish draft financial statements by September 15 to aid in preparation of the CAFR. The university sent schedules by subfund. The compiled schedules

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included some, but not all, adjustments the university makes in preparing its own financial statements. At the request of department personnel, university accountants provided additional information and adjustments to the financial schedules previously submitted. When the university actually prepared its financial statements from the schedules, additional adjustments occurred.

When the university completes its financial statements after the CAFR is completed, the risk of inconsistency between amounts presented on the university's financial statements and those in the CAFR increases. If the university were to send completed draft statements to the department, university personnel could improve efficiency by only preparing one set of statements, supporting schedules, and adjustments each year. Department personnel would adjust the CAFR once rather than in current piecemeal fashion. Both the university and the department would benefit from a more efficient audit effort.

Land and Improvements

MSU recorded \$4,791,169 of land and \$20,928,839 of infrastructure-type improvements in the land account on the state's accounting records and reported \$25,720,008 of land and land improvements on the MSU-Bozeman balance sheet. State policy separates land from improvements. As a result, the department adjusts the state's CAFR each year to present only the land portion of the MSU-Bozeman account as land. University personnel should work with the Department of Administration to resolve this reporting difference.

Accounting and Reporting Functions

MSU has divided responsibility for certain accounting and reporting functions between the controller and the treasurer. The controller prepares the MSU-Bozeman financial statements, supervises maintenance of university accounting systems, and sets policies to ensure compliance with state law and generally accepted accounting principles. The treasurer prepares the revenue bond statements and supervises investment, debt, and plant fund accounting entries, including capitalization of construction work in progress and classification of construction assets when the projects are finished.

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In our audits of the state's CAFR and MSU-Bozeman financial statements, we have found that segregation of responsibility for financial reporting between these two officials, especially in the area of plant fund accounting, has contributed to dissemination of inconsistent and incomplete financial information. University options to address consistency in reporting include consolidating the reporting function, instituting an internal review process, and increasing oversight at the vice-presidential level. Action by university management to establish deadlines, assign responsibilities, and monitor progress of the report process can facilitate timely release of financial reports. By coordinating authority over the accounting and reporting roles and responsibilities of its controller and treasurer, MSU-Bozeman can improve the timeliness, consistency, and efficiency of its financial records and reports.

Recommendation #8

We recommend the university's MSU-Bozeman campus:

- A. Implement procedures to assure the accuracy of construction work in progress recorded on the accounting records.**
- B. Develop procedures to expedite preparation of its annual financial statements.**
- C. Work with the Department of Administration to resolve the difference in reporting land and land improvements.**
- D. Coordinate responsibility for the financial reporting function.**

Research and Development Institute

The Research and Development Institute (RDI) is a nonprofit corporation established to serve as the MSU-Bozeman patent development and licensing management organization. Based on an agreement between MSU-Bozeman and RDI, the university assigns new inventions to RDI for patent development and licensing. The written agreement between RDI and MSU-Bozeman requires RDI to

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provide MSU-Bozeman with financial statements and a report verifying the accuracy of the statements prepared by an independent Certified Public Accountant (CPA).

MSU-Bozeman provided us with letters from a CPA firm outlining agreed-upon procedures performed on RDI calendar year 1997 and 1998 financial information. The portion of RDI activity covered by the agreed-upon procedures reports tracks royalties from licensing agreements. Under terms of the agreement between MSU and RDI, RDI deducts direct expenses and 10 percent for indirect expenses. After these deductions, the agreement states 50 percent of the patent and royalty revenue from the projects will remain in an account at RDI to support MSU-Bozeman research, and 50 percent will be distributed to the inventor. The agreed-upon procedures reports show the MSU share is further reduced by commitments to pay certain administrative costs and nonreimbursed patent expenses on technology not currently licensed from the MSU share of the royalties. The residual royalties reported as available to MSU were \$3,554 and \$4,871 in calendar years 1998 and 1997, respectively.

These university assets were not recorded on the state's accounting records during our audit period. In addition, the university did not record the royalty revenue and the associated expenses. Section 17-1-102(4), MCA, requires all state agencies, including university units, to maintain accountability for all their financial resources on the state's accounting records.

While the procedures verified certain contractual obligations to inventors had been met, the report did not provide MSU-Bozeman with the total accumulated value of its earnings held by RDI. As a result, MSU-Bozeman lacked the information necessary to establish and maintain accountability for university assets managed by RDI.

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A university official said MSU-Bozeman and RDI are considering changes in the patent and licensing contract regarding required financial reporting. To facilitate university compliance with accounting and reporting requirements related to the patent activity, reports from RDI should include, on a state fiscal year basis:

- total MSU-Bozeman assets held by RDI.
- MSU-Bozeman patents and licensing revenue earned and administrative costs paid from the university's share.

Recommendation #9

We recommend the university:

- A. Determine the amount of and maintain accountability for MSU-Bozeman assets managed, revenues received, and expenses paid by the Research & Development Institute.**
- B. Include provisions in the contract with the Research & Development Institute to ensure MSU-Bozeman receives timely information on assets managed, revenue received, and expenses paid.**

Montana TechLink Contract

Montana State University-Bozeman receives federal funding from the National Aeronautics and Space Administration (NASA) (CFDA #43.002), for its Montana TechLink Center. The Montana TechLink Center was established in 1996 to link the technology needs of industry with technology available from federal laboratories, universities, and companies. MSU recorded expenditures of \$1,040,599 and \$919,889 from the NASA grant for fiscal years 1997-98 and 1998-99, respectively. The NASA TechLink funds flow to MSU as a pass-through subgrant from the Research and Development Institute (RDI).

In conjunction with the grant, MSU executed a contract with RDI. Under the contract, RDI agreed to pay MSU TechLink up to \$4,500,000 over a four-year period to fulfill the technology

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objectives of the grant. MSU agreed to pay RDI \$61,000 per year for technical support in areas of technology evaluation and transfer. MSU also agreed to pay RDI up to \$130,000 for remodeling costs for space rented by TechLink at Tech Park, a facility owned by a for-profit subsidiary of the MSU Foundation.

In our review of the TechLink files in the MSU Grants and Contracts Office, we noted several issues which raised concern as to the actual level of responsibility MSU has to NASA for the grant. These conditions are listed below:

- ▶ Three quarterly federal cash transaction reports sent to NASA listing RDI as the recipient organization were signed by the university Grants and Contracts Administrator.
- ▶ Seven of the quarterly and 21 of the monthly Contractor Management Financial Reports sent to NASA listing RDI as the reporting organization were signed by the MSU Grants and Contracts Administrator or employees of that office.
- ▶ The grant proposal document describes the NASA TechLink Center as “a NASA-MSU venture in rural technology, transfer, development and commercialization.”
- ▶ The cooperative agreement statement of work cites RDI and MSU as if both were parties to the agreement. An early version titled the cooperative agreement as being with Montana State University’s Research and Development Institute.

Although NASA sends grant funds to RDI and MSU bills RDI for TechLink Center costs, the conditions discussed above suggest that NASA considers MSU and RDI to be parts of the same entity. In two separate conversations, a NASA official first confirmed MSU as the grantee and later RDI. The official declined to specify which one would be held responsible for noncompliance with terms of the agreement if such incidents occurred. Another NASA official at another location, who was involved in the initial negotiations on the grant, said NASA granted the funds to RDI because RDI could take an equity position in a start-up company if this action were necessary to disseminate federal technology. This official said

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NASA's understanding was that the university, as a state entity, could not take an equity position. According to the university, RDI has not taken an equity position in any TechLink technology to date.

According to an MSU official, RDI subgrants all funds to MSU and the MSU Grants and Contracts office prepares all required financial reports. To verify the assertion that all grant funds pass through to MSU, we requested a schedule of sources and uses of funds for the NASA TechLink grant from RDI's president. The president instructed us to request the schedule in writing through the president of MSU. By reviewing RDI corporate filings, we determined that the MSU president and the director of TechLink Center have seats on the RDI Board of Directors. Although the RDI by-laws state RDI has a nine-member board, the 1999 corporate filing with the Secretary of State listed only four members. A roster of board members furnished by RDI in February 2000 listed five members. Although MSU-Bozeman may have had effective control during part of 1999, the by-laws describe a board designed to operate RDI as an independent entity.

However, since RDI financial activity results almost entirely from services provided to or on behalf of MSU, RDI appears to be fiscally dependent on MSU. Under government accounting standards, MSU-Bozeman is financially accountable for a fiscally dependent organization, such as RDI, regardless of whether the organization has an independent governing board. Accounting standards indicate an organization for which MSU-Bozeman is financially accountable belongs in the MSU-Bozeman financial reporting entity. Such reporting would establish full accountability over the NASA TechLink grant, which comprises approximately two-thirds of RDI's cash flows in fiscal years 1997-98 and 1998-99 and for which MSU appears to be responsible for federal compliance. MSU management disagrees with the assertion that RDI, an independent legal entity, may be a part of the university's financial reporting entity. Therefore, we recommend the Department of Administration, which prepares the state's Comprehensive Annual Financial Report; the Commissioner of Higher Education, who oversees Montana University System

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accounting policy; and MSU-Bozeman evaluate the RDI status and determine whether and how it should be reported as part of MSU-Bozeman and the state of Montana financial statements.

Recommendation #10

We recommend the Department of Administration, the Commissioner of Higher Education, and MSU-Bozeman evaluate whether the assets and financial activity of the Research & Development Institute should be included in MSU-Bozeman financial statements and the state's Comprehensive Annual Financial Report.

Federal Issues

The university receives federal assistance from various agencies to support its research, community service, and student financial aid efforts. Federal regulations require the university to operate accounting systems which accurately accumulate and support costs charged to federal grants. The following sections discuss instances where accounting procedures can be improved for both direct and allocated costs of federal programs.

Reconciliation of Detail and Summary Financial Information

The detailed financial information for grants and contracts at MSU-Bozeman was recorded on its Financial Reporting System (FRS) during the two years ended June 30, 1999. The MSU-Bozeman Grants and Contracts Office prepares federal financial reports and the Schedule of Expenditures of Federal Awards using FRS detail information. The FRS data was summarized and recorded on the Statewide Budgeting and Accounting System (SBAS). MSU-Bozeman Controller's Office personnel complete a reconciliation of the FRS summary information and SBAS at fiscal year-end and make adjustments, if necessary, to the appropriate system. During the audit, we noted the detail and summary information did not agree at fiscal year-end 1997-98 and 1998-99 by a net amount of \$26,228 and \$80,499, respectively. In our previous audit, we also noted differences between the two systems which MSU-Bozeman personnel were unable to explain. We recommended the university

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complete a reconciliation at fiscal year-end between the detail and summary information.

Federal regulations require federal financial reports and claims for advances and reimbursements contain information that is supported by the books and records from which the basic financial statements have been prepared.

Grants and Contracts Office personnel complete daily reconciliations of the detail and summary information. However, a reconciliation is not completed at fiscal year-end. Since payments are made from SBAS, it is important the detail financial information can be reconciled with SBAS. When university grant reports and charges are not supported by or reconcilable to the university's underlying accounting records, federal grantors may impose sanctions. MSU-Bozeman personnel should identify reconciling items at fiscal year-end and ensure any errors are corrected.

Recommendation #11

We recommend the university complete a reconciliation of detail and summary information at fiscal year-end and resolve any differences between its grants system at MSU-Bozeman and the state's records on a timely basis.

Equipment Disposal

MSU-Bozeman purchases various equipment with federal grant funds. Any equipment purchased for more than \$1,000 is included on the property records. The total acquisition value of this equipment as of May 1999 is \$17,273,303.

When the equipment is no longer needed, it may be sold, replaced, or used in other activities. Federal requirements cover disposal of assets with current fair market value greater than \$5,000. If the item is sold, the federal agency that provided the funds to purchase the property is entitled to a portion of the proceeds. The agency should be compensated based on the percent of funding provided when the property was purchased. The equipment may be traded in

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or sold with the proceeds used to offset the price of the replacement equipment if approval of the federal awarding agency is obtained. When the intent is to dispose of the property, the recipient should request disposition instructions from the federal awarding agency. If the recipient wants to retain the equipment for other uses, they may do so as long as they provide compensation to the original federal agency.

The property management officer at MSU-Bozeman disposes of all property in the same manner regardless of whether it was purchased with state, federal, or private funds. Although the property inventory includes funding source information for listed items, potential federal repayments are not considered at the time of disposal. The officer was not aware additional requirements existed when the property was bought with federal funds.

Motor Pool Rates

Federal regulations allow institutions receiving federal grants to recover vehicle costs by computing depreciation or a use allowance. The regulations require depreciation to be based on the useful life of the vehicle and reflect the pattern of consumption of the asset.

MSU-Bozeman includes a factor in its motor pool rate to cover costs of purchasing replacement vehicles for its fleet. In this way, the university recovers the increase in the cost of a new vehicle over the period of use of the old one, which is prior to the time the vehicle is used. As a result, the method used to set motor pool rates does not comply with federal regulations or reflect actual costs of motor pool transportation. According to university personnel, charging replacement cost keeps rates lower because the university does not have to finance the replacement vehicles. Our analysis indicated depreciation to be a more consistent method of recovering costs, since it is based on the actual cars in the fleet rather than the budgeted number of vehicles to be replaced.

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Allocation of Payroll Costs to Federal Programs

During our previous audit we noted federal regulations required a payroll distribution system be incorporated into the official records of the institution and reasonably reflect the activity for which the employees are compensated by the institution. The regulations require the method used recognize the principle of after-the-fact confirmation of time and effort spent on a grant so that costs distributed represent actual costs. Although MSU-Northern allocates personal services costs to federal programs based on time and effort for personnel who work on more than one grant, it does not document time and effort expended on all programs. These costs are allocated based on the amounts budgeted for each program.

Recommendation #12

We recommend the university:

- A. Ensure the MSU-Bozeman property manager follows requirements related to disposal of assets purchased with federal funds.**
- B. Use depreciation in calculating MSU-Bozeman motor pool rates as required by federal regulations.**
- C. Charge payroll costs to grants at MSU-Northern based upon certified time and effort reports.**

Payroll Controls

Prudent business practice dictates a payroll control system ensure payroll is entered and processed accurately. Elements of such a control structure include segregation of incompatible duties, independent review of transactions prior to payment, and review of processed transactions which have values outside of expected ranges.

Currently, MSU-Northern has one employee who inputs, reviews, and approves payroll transactions. During our audit of payroll at MSU-Northern, we noted three payroll input errors. These items were:

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- ▶ An employee was overcharged for an administrative fee related to flexible spending accounts.
- ▶ The allocation of personnel services expenditures to campus programs did not tie to supporting documentation.
- ▶ An employee was paid \$247.72 for overtime not actually worked.

According to university personnel, these errors occurred because of a misinterpretation of the administrative fee deduction guidance and human error. Had the supporting documentation been compared to the actual payroll submitted for payment, these errors may have been detected and prevented. Management at MSU-Northern said payroll controls can be strengthened by using exception reports to identify unusual transactions and estimates development of these reports will cost up to \$5,000.

Recommendation #13

We recommend the university establish controls at MSU-Northern to ensure payroll input and approval is supported by supporting documentation.

Accounting Records

State law requires transactions be recorded on the state's accounting system in accordance with generally accepted accounting principles (GAAP). The Department of Administration has adopted accounting policies to guide agencies into compliance with GAAP. In the following sections, we discuss instances where the university did not record financial activity as required by state law and accounting policy.

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Expenditure Abatements

The university records revenues and expenditures to track the sources and uses of resources in its operations. State accounting policy allows a reduction of expenditures when cash is received in two situations. Expenditures may be reduced when vendors refund overpayments previously recorded as expenditures. In addition, expenditures made on behalf of an outside party may be reduced when the party reimburses the state. We noted five instances where MSU-Bozeman personnel abated expenditures that did not meet the criteria in state policy.

- ▶ The School of Art completed upgrades to their building and paid for them with operating funds. A donor provided a gift to the MSU Foundation to cover the cost of the improvements. When the foundation reimbursed MSU for the improvements, MSU reduced expenditures in the operating account. As a result, revenue and expenditures were understated by \$6,942.
- ▶ The Alumni Affairs Office prints newsletters and other publications to send to alumni. When the Alumni Affairs Office overexpended its budget near fiscal year-end, the MSU Foundation transferred money to cover the expenses. The transfer was recorded as an expenditure abatement. As a result, revenue and expenditures were understated by \$2,884.
- ▶ A graduate student set up a research lab in the Department of Chemical Engineering. The salary of the researcher was paid from the department's instruction budget. The MSU Foundation reimbursed the department for the cost of the salary and the department abated expenditures rather than recording donation revenue of \$3,667.
- ▶ Civil Engineering alumni established a fund at the MSU Foundation for research and curriculum improvement. Awards of \$25,000 were recorded as expenditure abatements in operating and research accounts.
- ▶ MSU sold cattle purchased with federal grant funds (CFDA #10.205) and recorded the receipt as a reduction of grant expenditures. The grant agreement states that program income, such as the cattle sale, may be added to the total project funds and used to further the objectives of the grant. As a result, revenue and expenditures were understated by \$9,707 for this grant.

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The university has an internal policy on expenditure abatements which is similar to state policy. Under the university policy, revenue should be recognized if receipt of the funds is a result of an activity which is part of the routine mission of the department. In all of the above cases, the funds received supplemented resources available to carry out the ongoing mission of the departments receiving them. A financial officer said a copy of the internal policy had been distributed to departmental accounting personnel in April 1998 in response to a similar abatement finding in the last audit. In addition, university personnel developed a report to identify abatement transactions for review, the financial officer said. Improper use of expenditure abatements understates the support from outside sources for university operations and the expenditures on these operations.

Recommendation #14

We recommend the university record expenditure abatements at MSU-Bozeman only for those transactions allowed by state and university policy.

Unrecorded Activity

We noted three types of assets and liabilities which were not recorded on the accounting records.

- ▶ The Board of Regents has the authority to borrow money to finance assets needed to operate the university system. MSU-Bozeman furnished evidence of \$1,105,731 in borrowing, including \$650,000 in loans from the Board of Investments to complete its Bioscience building. An MSU official said the liabilities had not been recorded on the state's accounting records through oversight. The official believed other personnel handled the liability transaction. Loan proceeds were improperly recorded as revenue.
- ▶ The MSU-Great Falls College of Technology did not record construction work in progress for the completed portion of an ongoing major construction project. Agencies appropriated construction projects receive status reports from the

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Architecture & Engineering Division, Department of Administration, at fiscal year-end which should be used to help determine the amount of a project which should be capitalized as construction work in progress. University officials said the project was overlooked because the accounting was handled by the department. As a result, construction work in progress was understated by \$360,105 at June 30, 1998.

- ▶ MSU-Bozeman has capitalized the cost of withdrawing books from service in its library book valuation process. Montana Operations Manual 2-1730.10 states reasonable and necessary costs incurred to place an asset in its intended location and use can be included in the cost of a fixed asset. The cost of removing assets from service does not meet this criterion. An MSU official said library holdings were revalued in fiscal year 1993-94 and the decision to capitalize withdrawals was made at that time. As a result, MSU included \$155,130 in withdrawal costs in its library inventory value over the subsequent four years.

Recommendation #15

We recommend the university comply with state law by ensuring loans payable, construction work in progress, and library books are recorded on the state's accounting records in compliance with state accounting policy.

Reporting Suspected Thefts

Section 5-13-309(3), MCA, requires state agencies to immediately notify both the attorney general and the legislative auditor in writing upon the discovery of any theft, actual or suspected, involving state moneys or property under the control of or for which the agency is responsible. We noted three instances where the university did not report suspected thefts as required by state law. These instances are discussed below.

- ▶ MSU-Bozeman Student Health Services advised campus police of an apparent theft of drugs from the health service facility in October 1995. Campus police conducted an investigation which resulted in the dismissal of a university employee. The incident was not reported by the university to the legislative auditor or the attorney general. We conducted an inquiry

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based on information obtained from sources outside the university. MSU management said the incident did not appear significant enough to report at the time, but agreed upon review of the file that it should have been reported.

- ▶ MSU-Billings personnel discovered a theft of \$1,500 by a student employee. The employee had authority to approve purchases and abused the authority by approving payments to himself. The director of campus security at MSU-Billings said she was not aware of the requirement to report the incident to the legislative auditor and the attorney general.
- ▶ MSU-Bozeman personnel discovered \$300 missing from the till of an auxiliary operation on May 1, 1999. Although other university personnel became aware of the cash short condition in a count several days later and believed a theft may have occurred, the incident was not reported to campus police until May 19, 1999, or to the legislative auditor and the attorney general until June 9, 1999.

The university furnished reports on several other incidents. The letters indicated information on the incidents was on file with the MSU internal auditor. For the situations described above, the internal auditor had not been notified. The university needs to develop consistent procedures to ensure apparent and suspected thefts are reported in compliance with state law.

Recommendation #16

We recommend the university develop procedures for each campus with fixed responsibility for reporting apparent and suspected thefts in compliance with state law.

FINANCIAL SECTION

Independent Auditor's Report & Montana State University-Bozeman Financial Statements

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel
Tori Hunthausen, IT & Operations Manager



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Balance Sheet of Montana State University-Bozeman, as of June 30, 1999, and the related Statements of Changes in Fund Balances and the Statements of Current Fund Revenues, Expenditures, and Other Changes for each of the two fiscal years then ended. The information contained in these financial statements is the responsibility of the Montana State University-Bozeman's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Montana State University-Bozeman as of June 30, 1999, and its changes in fund balances and the current fund revenues, expenditures, and other changes for the two fiscal years then ended, in conformity with generally accepted accounting principles.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "James Gillett".

James Gillett, CPA
Deputy Legislative Auditor

November 19, 1999

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MONTANA STATE UNIVERSITY-BOZEMAN, COMPONENT UNIT OF THE STATE OF MONTANA
BALANCE SHEET
June 30, 1999

ASSETS

CURRENT FUNDS:

Unrestricted:

General operating:

Cash	\$ 5,192,019
Accounts receivable	1,987,344
Due from other fund groups	1,295,958
Cash equivalents-STIP (Note 4)	620,141
Prepaid expenditures	<u>793,145</u>

Total general operating 9,888,607

Designated:

Cash	5,205,958
Accounts receivable	1,972,655
Due from other fund groups	5,678,368
Cash equivalents-STIP (Note 4)	6,646,691
Inventories	<u>652,176</u>

Total designated 20,155,848

Auxiliary enterprises:

Cash	612,384
Accounts receivable	38,972
Due from other fund groups	200,489
Cash equivalents-STIP (Note 4)	9,132,971
Inventories	<u>549,002</u>

Total auxiliary enterprises 10,533,818

Total unrestricted 40,578,273

Restricted:

Cash	1,927,089
Accounts receivable	9,628,366
Due from other fund groups	1,227,125
Cash equivalents-STIP (Note 4)	<u>1,373,055</u>

Total restricted 14,155,635

Total current funds \$ 54,733,908

STUDENT LOAN FUNDS:

Cash	\$ 149,464
Loan receivable - less allowance for bad debts	14,291,178
Accounts receivable	8,465
Cash equivalents-STIP (Note 4)	<u>1,559,256</u>

Total student loan funds \$ 16,008,363

See notes to financial statement

LIABILITIES AND FUND BALANCES

CURRENT FUND BALANCES

Unrestricted:

General operating:

Accounts payable and accrued liabilities	4,793,132
Due to other fund groups	2,095,585
Deposits	51,951
Deferred revenue	1,520,323
Securities lending	169,703
Compensated absences payable (Note 7)	11,308,634
Fund balance-reserved (Note 1)	20,786
Fund balance-unreserved (Note 1)	<u>(10,071,507)</u>

Total general operating	<u>9,888,607</u>
-------------------------	------------------

Designated:

Accounts payable and accrued liabilities	2,779,359
Due to other fund groups	941,016
Deferred revenue	238,878
Securities lending	552,279
Compensated absences payable (Note 7)	3,159,715
Fund balance-reserved	2,575
Fund balance-unreserved (Note 1)	<u>12,482,026</u>

Total designated	<u>20,155,848</u>
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Auxiliary enterprises:

Accounts payable and accrued liabilities	834,584
Due to other fund groups	468,217
Deposits	739,652
Deferred revenue	57,242
Securities lending	616,064
Compensated absences payable (Note 7)	840,666
Fund balance-unreserved (Note 1)	<u>6,977,393</u>

Total auxiliary enterprises	<u>10,533,818</u>
-----------------------------	-------------------

Total unrestricted	<u>40,578,273</u>
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Restricted:

Accounts payable and accrued liabilities	4,186,961
Due to other fund groups	5,061,928
Securities lending	96,469
Compensated absences payable (Note 7)	174,010
Fund balance-unreserved (Note 1)	<u>4,636,267</u>

Total restricted	<u>14,155,635</u>
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Total current funds	<u>\$ 54,733,908</u>
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STUDENT LOAN FUNDS:

Accounts payable	\$ 4,673
Securities lending	85,256

Fund balances:

U.S. Government grants refundable	\$11,385,369
University funds	4,415,292
Private gifts	<u>117,773</u>
Total student loan funds	<u>\$ 16,008,363</u>

MONTANA STATE UNIVERSITY-BOZEMAN, COMPONENT UNIT OF THE STATE OF MONTANA
BALANCE SHEET
June 30, 1999

ASSETS

ENDOWMENT FUNDS:

Cash	\$ 1,720
Due from other fund groups	86
Cash equivalents-STIP (Note 4)	1,291,393
Total endowment funds	\$ <u>1,293,199</u>

PLANT FUNDS:

Unexpended:

Cash and cash equivalent	\$ 5,456,026
Accounts receivable	2,235
Due from other fund groups	431,594
Cash equivalent-STIP (Note 4)	3,856,875
Construction work in progress	21,094,898

Total unexpended	<u>30,841,628</u>
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Renewals and replacements:

Cash and cash equivalents	1,083,772
Accounts receivable	42,704
Due from other fund groups	425,947
Investments (Note 1)	1,165,435
Cash equivalents-STIP (Note 4)	5,542,802

Total renewals and replacements	<u>8,260,660</u>
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Retirement of indebtedness:

Cash and cash equivalents	234,831
Accounts receivable	74,087
Due from other fund groups	209,298
Cash equivalents-STIP (Note 4)	1,797,786

Total retirement of indebtedness	<u>2,316,002</u>
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Investment in plant:

Land and land improvements	25,720,008
Buildings (including construction in progress)	185,070,034
Equipment	59,040,323
Livestock	2,916,738
Library books	35,625,740

Total investment in plant	<u>308,372,843</u>
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Total plant funds	\$ <u>349,791,133</u>
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AGENCY FUNDS:

Cash	\$ 1,379,615
Accounts receivable	84,257
Prepaid expenses	250,000
Due from other fund groups	4,273,605
Cash equivalent-STIP (Note 4)	869,866
Total agency funds	\$ <u>6,857,343</u>

See notes to financial statement

LIABILITIES AND FUND BALANCES

ENDOWMENT FUNDS:

Securities lending	\$ 95,593
Fund balance	1,197,606

Total endowment funds	\$ <u>1,293,199</u>
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PLANT FUNDS:

Unexpended:

Accounts payable and accrued expenditures	\$ 803,376
Due to other fund groups	316,039
Deferred revenue	12,409
Securities lending	171,404
Compensated absences (Note 7)	208
Bonds payable	20,002,663
Fund balance-reserved (Note 1)	186,842
Fund balance-unreserved (Note 1)	9,348,687
Total unexpended	<u>30,841,628</u>

Renewals and replacements:

Accounts payable and accrued expenditures	391,301
Due to other fund groups	275,982
Deferred revenue	14,111
Securities lending	508,217
Fund balance-reserved (Note 1)	155,670
Fund balance-unreserved (Note 1)	6,915,379
Total renewals and replacements	<u>8,260,660</u>

Retirement of indebtedness:

Accounts payable and accrued expenditures	505,278
Due to other fund groups	124,286
Deferred revenue	6,783
Securities lending	85,979
Fund balance	1,593,676
Total retirement of indebtedness	<u>2,316,002</u>

Investment in plant:

Bonds payable (Note 5)	60,109,057
Other payables: notes	43,167
Other payables: installment loan	1,075,968
Other payables: leases	281,741
Net investment in plant	246,862,910
Total investment in plant	<u>308,372,843</u>
Total plant funds	\$ <u>349,791,133</u>

AGENCY FUNDS:

Accounts payable and accrued liabilities	\$ 2,388,401
Due to other fund groups	1,157,292
Securities lending	148,466
Deposits held in custody for others	3,163,184

Total agency funds	\$ <u>6,857,343</u>
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MONTANA STATE UNIVERSITY-BOZEMAN, COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 1999

	Current Funds				Plant Funds						
	General Operating	Unrestricted		Auxiliary Enterprises	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant
		Designated									
Revenue and other additions:											
Current funds revenue	\$ 94,665,993	\$ 28,780,045	\$ 24,828,393	\$ 85,499,009							
Federal capital contribution	-	-	-		\$ 340,166	-	-	-	-	-	-
University capital contribution	-	-	-		103,004	-	-	-	-	-	-
Private capital contribution	-	-	-		-	-	\$ 1,548	\$ 752,622	\$ 4,418	-	-
Interest on loans receivable	-	-	-		-	-	-	-	-	-	-
Student fees	-	-	-		287,592	-	-	-	-	-	-
Investment income	-	-	-		-	-	-	1,238,629	79,293	\$ 2,943,688	-
Land grant income (Note 2)	-	-	-		73,988	-	1,079	1,326,499	305,136	417,273	-
Debt retirement (Note 4)	-	-	-		-	-	-	-	-	984,614	-
Plant additions (including \$6,204,553 charged to current funds)	-	-	-		-	-	-	-	-	-	\$ 2,978,665
Bond movement	-	-	-		-	-	-	-	-	-	44,609,750
Activities income	-	-	-		-	-	-	(7,345,059)	176,045	1,152,116	-
Other	-	-	-		-	-	-	1,052,724	494,186	44,298	-
Total revenue and other additions	94,665,993	28,780,045	24,828,393	85,499,009	804,750	2,627	(2,917,429)	1,059,078	5,541,989	47,588,415	
Expenditures and other deductions:											
Current funds expenditures	94,418,382	25,960,117	19,179,705	84,595,597	-	-	-	-	-	-	-
Loan cancellations	-	-	-	-	192,411	-	-	-	-	-	-
Expended for plant facilities (including \$7,655,370 non-capital expenditures)	-	-	-	-	-	-	-	5,978,541	4,041,132	-	-
Move equity to NIIP	-	-	-	-	-	-	-	-	-	-	-
Interest on debt	-	-	-	-	-	-	-	-	-	3,790,887	-
Bonds payable	-	-	-	-	-	-	-	-	-	2,590,000	17,575,128
Installment loan debt	-	-	-	-	-	-	-	-	-	169,648	907,628
Leases	-	-	-	-	-	-	-	-	-	-	198,208
Disposal of plant assets	-	-	-	-	-	-	-	-	-	-	2,642,543
Other	-	-	-	-	14	-	-	-	-	179,550	-
Total expenditures and other deductions	94,418,382	25,960,117	19,179,705	84,595,597	192,425	0	5,978,541	4,041,132	6,730,085	21,323,507	

See notes to financial statements

MONTANA STATE UNIVERSITY-BOZEMAN, COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF CHANGES IN FUND BALANCES (continued)
YEAR ENDED JUNE 30, 1999

	Current Funds				Plant Funds			
	Unrestricted			Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements
	General Operating	Designated	Auxiliary Enterprises					
Transfers among funds additions - (deductions):								
Mandatory:								
All fund groups	-	-	\$ (3,199,423)	-	-	-	\$ (145,435)	-
Voluntary:								
General operating-net	-	\$ 97,850	0	-	-	-	146,450	\$ 719,413
Designated-net	\$ (97,850)	-	-	-	-	-	1,140	1,046,237
Auxiliary enterprises-net	0	-	-	-	-	-	125,000	1,940,358
Restricted-net	-	-	-	-	-	-	7,175	10,000
Unexpended plant-net	(145,450)	(1,140)	(125,000)	\$ (7,175)	-	-	-	(221,405)
Repair and replacement-net	(719,413)	(1,046,237)	(1,940,358)	(10,000)	-	-	221,405	(103,250)
Retirement of debt-net	-	1,044,827	49,375	-	-	-	103,250	(581,827)
Total transfers	(963,713)	95,300	(5,215,406)	(17,175)	0	0	458,985	1,565,579
Net increase (decrease) in fund balance	\$ (716,102)	\$ 2,915,228	\$ 433,282	\$ 886,237	\$ 612,325	\$ 2,627	\$ (8,436,985)	\$ 1,094,376
Fund balances at beginning of year as previously reported	(9,229,567)	9,873,089	6,587,996	3,755,922	15,305,639	1,194,979	6,389,107	7,426,435
Adjustments:								
Prior year revenues	(56,349)	(569,736)	(69,732)	(543,928)	180	-	1,678,414	(1,368,195)
Prior year expenditures	(48,703)	266,020	25,847	538,036	290	-	(739,485)	(81,567)
Prior year move equity	-	-	-	-	-	-	10,644,488	-
Total adjustments	(105,052)	(303,716)	(43,885)	(5,892)	470	0	11,583,417	(1,449,762)
Fund balances at beginning of year as adjusted	(9,334,619)	9,569,373	6,544,111	3,750,030	15,306,109	1,194,979	17,972,524	5,976,673
Fund balances at end of year	\$ (10,050,721)	\$ 12,484,601	\$ 6,977,393	\$ 4,636,267	\$ 15,918,434	\$ 1,197,606	\$ 9,535,539	\$ 7,071,049
								\$ 26,264,908
								220,598,002
								-
								-
								0
								220,598,002
								\$ 246,862,910

See notes to financial statements

MONTANA STATE UNIVERSITY-BOZEMAN, COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
YEAR ENDED JUNE 30, 1999

	Unrestricted				
	General Operating	Designated	Auxiliary Enterprises	Restricted	Total
Revenues:					
Tuition and fees	\$38,156,156	\$ 2,220,484	-	-	\$ 40,376,640
Federal appropriations	3,989,309	-	-	-	3,989,309
State appropriations	50,509,718	-	-	\$ 169,067	50,678,785
Federal grants and contracts	233,128	29,179	-	69,446,234	69,708,541
State grants and contracts	-	-	-	7,102,409	7,102,409
Private gifts, grants, and contracts	-	753,096	-	7,620,595	8,373,691
Other sources	715,706	1,807,938	-	257,292	2,780,936
Sales and service	1,061,976	23,969,348	-	-	49,859,717
Total revenues	94,665,993	28,780,045	\$24,828,393	84,595,597	232,870,028
Expenditures and mandatory transfers:					
Education and general					
Instruction	42,827,498	1,113,187	-	512,483	44,453,168
Research	10,989,765	7,003,148	-	30,171,887	48,164,800
Public service	6,242,904	2,639,150	-	10,529,834	19,411,888
Academic support	9,327,569	9,950,050	-	303,972	19,581,591
Student services	6,419,494	4,791,486	-	794,141	12,005,121
Institutional support	6,430,815	463,096	-	3,136,001	10,029,912
Operation and maintenance of plant	9,061,924	-	-	31,307	9,093,231
Scholarships and fellowships	3,118,413	-	-	39,026,125	42,144,538
Other	-	-	-	89,847	89,847
Education and general expenditures	94,418,382	25,960,117	0	84,595,597	204,974,096
Auxiliary enterprises:					
Expenditures	-	-	19,179,705	-	19,179,705
Mandatory transfers	-	-	3,199,423	-	3,199,423
Total auxiliary	0	0	22,379,128	0	22,379,128
Total expenditures and mandatory transfers	94,418,382	25,960,117	22,379,128	84,595,597	227,353,224
Other transfers and additions (deductions):					
Excess of restricted receipts over transfers to revenue	-	-	-	903,412	903,412
Transfers	(963,713)	95,300	(2,015,983)	(17,175)	(2,901,571)
Net increase (decrease) in fund balance	\$ (716,102)	\$ 2,915,228	\$ 433,282	\$ 886,237	\$ 3,518,645

See notes to financial statements

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MONTANA STATE UNIVERSITY-BOZEMAN, COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 1998

	Current Funds				Plant Funds						
	General Operating	Unrestricted		Auxiliary Enterprises	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant
		Designated									
Revenue and other additions:											
Current funds revenue	\$ 90,881,927	\$ 27,193,477	\$ 24,568,004	\$ 85,292,622	-	-	-	-	-	-	-
Federal capital contribution	-	-	\$ 391,696	-	-	-	-	-	-	-	-
University capital contribution	-	-	117,887	-	-	-	-	-	-	-	-
Private capital contribution	-	-	-	-	\$ 13,650	\$ 444,656	\$ 21,883	-	-	-	-
Interest on loans receivable	-	-	-	-	-	-	-	-	-	-	-
Student fees	-	-	-	-	-	1,209,345	69,506	\$ 2,175,594	-	-	-
Investment income	-	-	-	-	-	1,506,593	263,944	331,368	-	-	-
Land grant income (Note 2)	-	-	-	-	-	38,313	-	924,370	-	-	-
Debt retirement (Note 4)	-	-	-	-	-	-	-	-	-	-	\$ 2,228,019
Plant additions (including \$9,202,258 charged to current funds)	-	-	-	-	-	-	-	-	-	-	-
State bond proceeds	-	-	-	-	-	-	-	-	-	-	36,869,012
Bond and loan proceeds	-	-	-	-	-	-	-	-	-	-	-
Activities rental income	-	-	-	-	-	-	899,526	358,908	-	-	-
Other	-	-	-	-	-	-	-	300,000	-	-	-
	-	-	-	-	-	22,497	103,262	58,334	-	-	0
Total revenue and other additions	90,881,927	27,193,477	24,568,004	85,292,622	856,057	14,675	4,163,382	2,012,543	4,148,574	39,097,031	
Expenditures and other deductions:											
Current funds expenditures	-	-	-	-	-	-	-	-	-	-	-
Loan cancellations	90,010,597	25,330,017	18,432,603	79,406,569	-	-	-	-	-	-	-
Loans assigned	-	-	-	-	97,986	-	-	-	-	-	-
Expended for plant facilities (including \$3,761,674 non-capital expenditures)	-	-	-	-	34,976	-	-	-	-	-	-
Move equity to NIIP	-	-	-	-	-	-	-	-	-	-	-
Interest on debt	-	-	-	-	-	-	4,761,799	2,467,185	-	-	-
Bonds payable	-	-	-	-	-	-	7,149,536	-	-	-	-
Installment loan debt	-	-	-	-	-	-	-	-	3,532,200	-	-
Leases	-	-	-	-	-	-	-	-	1,905,000	-	-
Other	-	-	-	-	-	-	-	-	160,284	-	-
	-	-	-	-	-	-	-	-	-	-	73,363
Total expenditures and other deductions	90,010,597	25,330,017	18,432,603	79,406,569	13	0	11,911,335	425,655	356,304	21,879,244	21,952,607

See notes to financial statements

MONTANA STATE UNIVERSITY-BOZEMAN, COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF CHANGES IN FUND BALANCES (continued)
YEAR ENDED JUNE 30, 1998

	Current Funds				Plant Funds						
	General Operating	Unrestricted		Auxiliary Enterprises	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant
		Designated									
Transfers among funds additions - (deductions):	-	-	-	-	-	-	-	-	-	-	-
Mandatory:	-	-	-	-	-	-	-	-	-	-	-
All fund groups	-	-	-	\$ (2,758,044)	-	-	-	-	-	\$ 2,758,044	-
Voluntary:	-	-	-	-	-	-	-	-	-	-	-
General operating-net	-	-	-	11,400	-	-	-	\$ 586,400	\$ 360,705	-	-
Designated-net	-	-	-	-	-	-	-	837,806	279,657	(625,324)	-
Auxiliary enterprises-net	\$ (11,400)	-	-	-	-	-	-	-	1,705,600	304,234	-
Restricted-net	-	-	-	-	-	-	-	6,295,950	(12,281)	7,509	-
Unexpended plant-net	(586,400)	\$ (837,806)	-	\$ (6,295,950)	-	-	-	-	(26,453)	19,674	-
Repair and replacement-net	(360,705)	(279,657)	-	12,281	-	-	-	26,453	-	(651,759)	-
Retirement of debt-net	-	625,324	-	(304,234)	-	-	-	(19,674)	651,759	-	-
Total transfers	(958,505)	(492,139)	-	(4,756,478)	(6,291,178)	0	0	7,726,935	2,958,987	1,812,378	0
Net increase (decrease) in fund balance	\$ (87,175)	\$ 1,371,321	\$ 1,378,923	\$ (405,125)	\$ 723,082	\$ 14,675	\$ (21,018)	\$ 2,078,690	\$ 7,164	\$ 17,144,424	
Fund balances at beginning of year as previously reported	(9,052,768)	8,663,290	5,255,257	960,143	14,585,209	1,180,304		7,635,728	5,348,180	1,267,140	228,460,845
Adjustments:											
Prior year revenues	(77,769)	12,706	(37,324)	3,537,346	(2,653)	-	-	(181,807)	(135)	(79,163)	-
Prior year expenditures	(11,855)	(174,228)	(8,860)	(336,442)	1	-	-	(1,043,796)	(300)	25,403	-
Change in capitalization level	-	-	-	-	-	-	-	-	-	-	(25,007,267)
Total adjustments	(89,624)	(161,522)	(46,184)	3,200,904	(2,652)	0		(1,225,603)	(435)	(53,760)	(25,007,267)
Fund balances at beginning of year as adjusted	(9,142,392)	8,501,768	5,209,073	4,161,047	14,582,557	1,180,304		6,410,125	5,347,745	1,213,380	203,453,578
Fund balances at end of year	\$ (9,229,567)	\$ 9,873,089	\$ 6,587,996	\$ 3,755,922	\$ 15,305,639	\$ 1,194,979	\$ 6,389,107	\$ 7,426,435	\$ 1,220,544	\$ 220,598,002	

See notes to financial statements

MONTANA STATE UNIVERSITY-BOZEMAN, COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
YEAR ENDED JUNE 30, 1998

	Unrestricted				
	General Operating	Designated	Auxiliary Enterprises	Restricted	Total
Revenues:					
Tuition and fees	\$35,289,832	\$ 2,028,756	-	-	\$ 37,318,588
Federal appropriations	3,797,273	-	-	-	3,797,273
State appropriations	49,622,620	-	-	\$ 169,651	49,792,271
Federal grants and contracts	201,860	22,400	-	66,945,954	67,170,214
State grants and contracts	-	-	-	4,964,019	4,964,019
Private gifts, grants, and contracts	-	535,376	-	7,204,486	7,739,862
Other sources	1,073,750	1,311,216	-	122,459	2,507,425
Sales and service	896,592	23,295,729	\$24,568,004	-	48,760,325
Total revenues	90,881,927	27,193,477	24,568,004	79,406,569	222,049,977
Expenditures and mandatory transfers:					
Education and general					
Instruction	40,699,881	1,013,879	-	298,038	42,011,798
Research	10,573,646	6,782,942	-	27,331,823	44,688,411
Public service	6,019,621	2,646,860	-	10,891,562	19,558,043
Academic support	8,603,960	9,805,126	-	621,725	19,030,811
Student services	6,021,320	4,512,121	-	677,247	11,210,688
Institutional support	6,442,208	239,549	-	1,087,898	7,769,655
Operation and maintenance of plant	8,726,593	329,540	-	2,438	9,058,571
Scholarships and fellowships	2,923,368	-	-	38,449,211	41,372,579
Other	-	-	-	46,627	46,627
Education and general expenditures	90,010,597	25,330,017	0	79,406,569	194,747,183
Auxiliary enterprises:					
Expenditures	-	-	18,432,603	-	18,432,603
Mandatory transfers	-	-	2,758,044	-	2,758,044
Total auxiliary	0	0	21,190,647	0	21,190,647
Total expenditures and mandatory transfers	90,010,597	25,330,017	21,190,647	79,406,569	215,937,830
Other transfers and additions (deductions):					
Excess of restricted receipts over transfers to revenue	-	-	-	5,886,053	5,886,053
Transfers	(958,505)	(492,139)	(1,998,434)	(6,291,178)	(9,740,256)
Net increase (decrease) in fund balance	\$ (87,175)	\$ 1,371,321	\$ 1,378,923	\$ (405,125)	\$ 2,257,944

See notes to financial statements

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1999

1. Summary of significant accounting policies

Montana State University-Bozeman:

Montana State University-Bozeman, Montana Agricultural Experiment Station, Montana Extension Service, Fire Service Training School, and MSU College of Technology-Great Falls are related through common management; however, they are separate and distinct agencies as reported on the Statewide Budgeting and Accounting System (SBAS). They receive separate federal and state appropriations. Montana State University-Bozeman's financial information is included as a component unit in the State of Montana Comprehensive Annual Financial Report (CAFR).

In January 1994, the Montana Board of Regents of Higher Education approved the restructuring of the Montana University System. As part of the restructuring, effective July 1, 1994, Montana State University has administrative oversight for Montana State University-Billings; Montana State University-Northern; MSU College of Technology-Billings; and MSU-College of Technology-Great Falls. These financial statements exclude activity for Montana State University-Billings and MSU College of Technology-Billings which are reported as Montana State University-Billings and Montana State University-Northern which is reported separately.

Financial statements:

The accompanying financial statements have been prepared following the standards of accounting and reporting as described by National College and University Business Officers (NACUBO). In accordance with Governmental Accounting Standard No. 15, "Governmental College and University Accounting and Reporting Models", the University has adopted the American Institute of Certified Public Accountants' (AICPA) "College Guide Model".

The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period and does not purport to present the results of operations or the net income or loss for the period.

Fund balances for unrestricted general operating funds includes the unfunded liability \$11,308,634 for FY99 compensated absences payable and \$10,493,986 for FY98 compensated absences payable.

Fund accounting:

The accounts of the University are maintained in accordance with the principles of fund accounting wherein resources are classified for accounting purposes into funds that are identified by the

limitations and restrictions placed upon their use. Separate accounts are maintained for each fund; however, accounts with common characteristics are combined into fund groups and reflected as such in the accompanying financial statements. The common characteristics of the funds contained in the various fund groups are as follows:

Current funds:

The current funds group includes economic resources expendable in performing the primary objectives of the University, i.e., Instruction, Research and Public Service. The current funds group has two basic distinct sub-groups: unrestricted funds which have no expenditure restrictions, and restricted funds which have expenditure restrictions. Unrestricted current funds are comprised of the following:

General Operating - utilized for general operations in performing the primary objectives of the University.

Designated - utilized for educational related service activities; these funds are separately classified in order to accumulate and distinguish the costs of specialized service function areas.

Auxiliary Enterprises - utilized in providing essential on-campus services primarily to students, faculty, and staff.

Student loan funds:

The resources from this group of funds are available to students to aid in financing their education. Funds for the loans are provided by private and University sources with the majority of the funds being provided by the Federal Government.

Endowment funds:

Endowment funds are funds with specific restrictions negating the expenditure of the principal. Generally, the principal is to be maintained in perpetuity and invested for the purpose of producing income.

Plant funds:

Plant funds are separated into four distinct self-balancing sub-group accounts:

Unexpended plant - utilized for acquisition of long-term institutional assets.

Renewal and replacement - utilized for long-term institutional asset maintenance.

Retirement of indebtedness - utilized for interest and debt retirement.

Investment in plant - denotes the cost of long-term

institutional assets and related liabilities.

Agency:

This fund is used where the University acts in a custodial or fiscal agent capacity for individual students, faculty, staff or qualified organizations.

Inventories:

Inventories, which consist mainly of food and operating supplies, are valued at cost (first-in, first-out method).

Plant and equipment:

Livestock is carried at current market value with any difference from the prior year values recorded in the plant fund. Livestock is purchased and raised for experimental purposes; the revenue from livestock sales is recorded in the general operating fund, except when a breeding animal is sold and is expected to be replaced; then sales proceeds are recorded in designated funds and used for replacements as needed.

Depreciation:

No provision has been made for depreciation of plant facilities in accordance with generally accepted accounting principles for colleges and universities.

Allowances for bad debts:

Allowances for bad debts have not been recorded. Losses from bad debts in all funds are recorded as adjustments to revenue in the year in which they are deemed uncollectible.

Allocated for encumbrances:

The University records encumbrances of general operating funds as expenditures in conformance with state accounting policy.

At June 30, 1999, the University had encumbered \$20,786 of general operating funds, \$2,575 of designated funds, \$315 of restricted funds, and \$44,214 renewal and replacement funds that are not included in expenditures in the accompanying financial statements. At June 30, 1998, the University had encumbered \$162,416 of general operating funds and \$1,823 of designated funds that are not included in expenditures in the accompanying financial statements. The accrual basis of accounting provides that expenditures include only amounts associated with goods and services received and that liabilities include only the unpaid amounts associated with such transactions. Fund balances are reserved in current funds for the encumbered funds. Bond proceeds budgeted for specific projects are shown as reserved fund balances in plant funds.

Prior year move equity:

A correction for \$10,644,488 was made to an FY98 Construction Work

in Progress adjustment resulting in a prior year movement of bonds payable.

Unearned tuition and fees:

Summer school tuition and fee revenues are deferred at June 30 and recorded as revenue in the succeeding fiscal year.

2. Changes in accounting and reporting

Capitalization policy:

The State of Montana raised the asset capitalization level from \$1,000 to \$5,000 effective July 1, 1997. The change in accounting and reporting resulted in a reduction of \$25,007,267 in property, equipment, and other assets in net investment in plant in FY98.

Investment of current operating and designated funds:

Effective July 1, 1997, the Montana Legislature expanded the number of accounting entities in which the University has the ability to invest excess cash balances.

Investment reporting at fair value:

In accordance with GASB#31, investments maturing within one year or less at the time of purchase, are recorded at amortized cost. Investments with maturities of one year or more are recorded at fair market value, which is obtained from the trustee statement. The difference between cost and market value of investments at June 30, 1999 was \$12,383 and at June 30, 1998 was \$30,075. Investment income is recorded when received. Investment appreciation income of \$30,075 was recorded for FY98 and depreciation of \$17,692 for FY99.

3. Land grant income

Montana State University benefits from two separate land grants. The first granted 90,000 acres for the University under provisions of the Morrill Act of 1862 and the second, under the Enabling Act of 1889, granted an additional 50,000 acres for the University.

Under provisions of both grants, income from the sale of land and land assets must be reinvested and constitutes, along with the balance of the unsold land, a perpetual endowment fund. The State of Montana, Board of Land Commissioners, administers both grants and holds all endowed assets.

Investment income from the first and second grants is currently pledged to the retirement of revenue bond indebtedness and is reported as revenue in the retirement of indebtedness fund.

4. Cash equivalents and investments

Investments and Cash Equivalents-STIP at June 30, 1999 consist of the following:

State of Montana short-term investment pool	FY99 \$30,161,402
Securities lending collateral	2,529,432
Money Market funds	5,364,286
U.S. Treasury securities, held by trustees in the entity's name	<u>1,165,435</u> <u>\$39,220,555</u>

STIP portfolio includes asset-backed securities, banker's acceptances, certificates of deposit, commercial paper, corporate and government securities, repurchase agreements, and variable-rate (floating-rate) instruments. Investments are at cost which equals market value. The unit value is \$1.00 per unit. STIP investments are in Risk Category 1 which includes investments that are insured or registered, securities held by the State or its agent in the State's name.

Cash Equivalents-Investments and Investments are U.S. Treasury Securities which are held by the U.S. Bank Trust of Montana in the University's name. Investments are in Risk Category 1. The market value at June 30, 1999 was \$5,364,286.

Cash and Cash Equivalents include cash on deposit and short term investments held by the U.S. Bank Trust of Montana in the University's name (Risk Category 1). The State requires collateralization based on the average daily cash balance.

Under the provisions of State statutes, the Board of Investments (BOI) has a Securities Lending Authorization Agreement that authorized its custodial bank (State Street Bank and Trust) to lend the BOI's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. During the period the securities are on loan, the BOI receives a fee and the custodial bank must initially receive collateral equal to 102 percent of the market value of the loaned securities and maintain collateral equal to not less than 100 percent of the market value of the loaned security. The BOI retains all rights and risks of ownership during the loan period.

State Street Bank lent, on behalf of the BOI, certain securities it held as BOI's custodian and received U.S. cash, U.S. government securities, and irrevocable bank letters of credit. State Street does not have the ability to pledge or sell collateral securities unless the borrower defaults.

The BOI did not impose any restrictions on the amounts of the loans that the State Street Bank made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions. There were no losses resulting from a default of the borrowers or State Street Bank.

The BOI and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment pool, the Securities Lending Quality Trust. The relationship between the average maturities of the investment pool and the BOI's loans was affected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which the BOI could not determine. On June 30, 1999, the BOI had no credit risk exposure to borrowers.

5. Bonds payable

Revenue Bonds payable at June 30, 1999 with annual principal payments and interest rates, are as follows:

Series 1987 A

Fiscal Year	Interest Rate	Principal
2000	7.60%	\$ 120,000
2001	8.00%	415,000
2002		0
2003		0
2004		0
2005 on		<u>0</u>
Total Series A 1987 Bonds Payable		\$ 535,000

Series 1993 A

Fiscal Year	Interest Rate	Principal
2000	3.95%	\$ 230,000
2001	4.10%	205,000
2002	4.25%	175,000
2003	4.35%	145,000
2004	4.45%	115,000
2005 on	4.60% - 5.05%	<u>22,011,720</u>
Total Series 1993 A Bonds Payable		\$22,881,720

Series 1996 B

Fiscal Year	Interest Rate	Principal
2000	5.20%	\$1,525,000
2001	5.30%	1,645,000
2002	5.40%	1,770,000
2003	5.50%	1,905,000
2004	5.50%	2,055,000
2005 on	5.75%-5.75%	<u>7,365,000</u>
Total Series 1996 B Bonds Payable		\$16,265,000

Series 1996 D

Fiscal Year	Interest Rate	Principal
2000	4.250%	\$ 225,000
2001	4.300%	235,000
2002	4.375%	250,000
2003	4.500%	265,000
2004	4.600%	270,000
2005 on	4.750%-5.375%	<u>26,180,000</u>
Total Series 1996 D Bonds Payable		\$27,425,000

Series 1998 E

<u>Fiscal</u> <u>Year</u>	<u>Interest Rate</u>	<u>Principal</u>
2000		0
2001	3.90%	\$ 225,000
2002	4.00%	235,000
2003	4.10%	245,000
2004	4.15%	255,000
2005 on	4.20%-5.00%	<u>7,295,000</u>
Total Series 1998 E Bonds Payable		\$ 8,255,000

Series 1998 F

<u>Fiscal</u> <u>Year</u>	<u>Interest Rate</u>	<u>Principal</u>
2000	3.85%	\$ 600,000
2001	3.90%	625,000
2002	4.00%	650,000
2003	4.10%	675,000
2004	4.15%	700,000
2005 on	4.20%-4.30%	<u>1,500,000</u>
Total Series 1998 F Bonds Payable		\$ 4,750,000

All Series Principal Due

<u>Fiscal</u> <u>Year</u>	<u>Principal</u>
2000	\$ 2,700,000
2001	3,350,000
2002	3,080,000
2003	3,235,000
2004	3,395,000
2005 on	<u>64,351,720</u>
Total All Series Principal Due	\$80,111,720

Debts refunded, issued, and escrowed:

Issuance of Series A 1986 Bonds, August 15, 1986 Indenture:

An original issue of \$34,835,000 dated August 15, 1986, consisting of fully registered bonds without coupons, with interest rates ranging from 6.60% to 7.40%, with the principal maturing serially on November 15, 1993 through 2009, for the refunding of all bonds outstanding under the October 1, 1985 and September 1, 1985 Indentures.

Issuance of Series A 1987 Bonds, June 15, 1987 Indenture:

An original issue of \$2,325,000 dated June 15, 1987, consisting of fully registered bonds without coupons, with interest rates ranging from 5.10% to 8.00%, principal maturing serially on January 1, 1988 through 2003, for the acquisition, construction, repair, remodeling, replacement, renovation, improvement, furnishing, and equipping of new and existing facilities at the University.

Issuance of Series A 1993 Bonds, November 9, 1993 Indenture:

An original issue of \$24,911,720.30 dated November 9, 1993, consisting of \$3,055,000 of fully registered Current Interest Serial Bonds with interest rates ranging from 2.60% to 4.75%, plus \$6,036,720.30 of fully registered Capital Appreciation Bonds with interest rates ranging from 5.00% to 5.20%, and the remainder of fully registered Current Interest Term Bonds maturing on November 15, 2013 through 2016. A total of \$4.3 million was used to partially refund certain eligible portions of the Series B 1985 and Series A 1986 Indentures. The remainder of the proceeds were for the acquisition, construction, repair, remodeling, replacement, renovation, improvement, furnishing, and equipping of new and existing facilities at the University.

The University realized a net present value savings of \$735,809 from the advance refunding. In addition, University funds totaling \$14,228,313 which were freed as a result of the Series A 1993 transaction were used concurrently for the early redemption of certain Series A 1986 Bonds. This resulted in a net present value savings of \$1,012,804 for the University.

Issuance of Series D 1996, August 15, 1996 Indenture:

On August 15, 1996, Montana State University, issued Series D-1996 Facilities Improvement and Refunding Revenue Bonds in the amount of \$44,530,000. MSU-Billings' share of the bonds was \$16,680,000 to be used for an advance refunding, construction and renovation of certain facilities, and to pay certain costs associated with the issuance of the bonds. MSU-Bozeman's share of the bonds was \$27,850,000 with interest rates ranging from 3.8% to 5.375%, payable semi-annually on May and November 15 beginning November 15, 1996, and with the final maturity date of November 15, 2021. The proceeds from the sale of the bonds will be used to: 1)pay the costs of acquisition, construction, renovation, improvement, furnishing, and equipping certain facilities; 2)pay the bond insurance premium; and 3)pay certain costs associated with the issuance of the bonds. The bonds are fully insured by the MBIA Insurance Corporation.

The Series D-1996 bonds (and all subsequent bonds) are payable from and secured by a parity first lien on and pledge of the Net pledged Revenues, which are comprised of: 1)all student building fees assessed against students attending the University; 2)net student housing system pledged revenues, after the payment of operation and maintenance expenses of such facilities; 3)a HUD debt service grant; 4)lease rentals from the Museum of the Rockies; 5)all Land Grant income; 6)student athletic fees; 7)Health & Physical Education fees; 8)Fieldhouse fees; and 9)capitalized interest and earnings on certain funds created under the Indenture.

Issuance of the Series B 1996, October 1, 1996 Indenture:

On October 1, 1996, Montana State University issued Series B-1996 Facilities Refunding Revenue Bonds in the amount of \$18,995,000. The proceeds from the sale of the bonds were used to: 1)advance refund \$18,440,000 of outstanding Series A-1986 bonds with

interest rates ranging from 7.0% to 7.4%; 2)pay the bond insurance premium; and 3)pay certain costs associated with the issuance of the bonds. This transaction culminated a forward purchase agreement entered into in August 1993 with certain institutional investors. The new interest rates range from 5.0% to 5.5% and will be paid semi-annually on May 15 and November 15, beginning May 15, 1997.

The bond proceeds, along with other pledged revenues, were deposited into an irrevocable escrow account held by the Trustee to purchase U.S. Government securities to provide for all future debt service payments for the Series A-1986 bonds. As a result, the Series A-1986 bonds are considered to be fully and legally defeased, and the liability for those bonds has been removed from the University's financial records. For the advance refunding of the bonds, the University realized an economic gain of \$1,043,736.40. The difference between the cash flows to service the old debt (\$27,078,420) and the new debt (\$25,648,947.31) was a reduction of \$1,429,472.69. The bonds are not subject to early redemption prior to final maturity date of November 15, 2007.

Issuance of the Series E 1998, June 1, 1998 Indenture:

On June 1, 1998, Montana State University issued Series E-1998 Facilities Improvement Revenue Bonds in the amount of \$8,255,000. The proceeds from the sale of the bonds were used to: 1)finance the construction, improvement, repair, replacement, expansion, renovation, furnishing, and equipping of the Reno H. Sales Stadium at the Bozeman campus; 2)pay the premiums for the municipal bond insurance policy; and 3)pay certain costs associated with the issuance of the Series E-1998 bonds.

Interest rates range from 3.9% to 5.0%, payable annually on May and November 15, commencing November 15, 1998. The bonds begin maturing on November 15, 2000, through November 15, 2021. Bonds maturing on or before November 15, 2008, are not subject to optional redemption prior to maturity. All bonds are unconditionally and irrevocably guaranteed by the Municipal Bond Insurance Association.

Issuance of the Series F 1998, June 1, 1998 Indenture:

On June 1, 1998, Montana State University issued Series F-1998 Facilities Improvement Revenue Bonds (Information Technology Project), in the amount of \$8,175,000. The proceeds from the sale of the bonds were allocated to three of the four MSU campuses, and are being accounted for in their respective Revenue Bond reports. Allocations were \$5,340,000 to Bozeman and Great Falls; \$2,275,000 to Billings; and \$560,000 to Northern. Proceeds were used for the purchase, installation and implementation of the Banner2000 software and required equipment, training and support.

Interest rates range from 3.65% to 4.30%, payable on May 15 and November 15 each year, commencing November 15, 1998. The bonds begin maturing on November 15, 1998, through November 15, 2005. The bonds are unconditionally and irrevocably guaranteed by the Municipal Bond Insurance Association, and are not subject to optional redemption prior to maturity.

6. Retirement plans

Full-time employees of Montana State University are all members of the Public Employees' Retirement System (PERS), Teacher's Retirement System (TRS) the Optional Retirement Program (ORP), Federal Employees' Retirement System (FERS) or the U.S. Civil Service Retirement System (CSRS). ORP started in January, 1988, is underwritten by the Teachers' Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF). Only faculty and staff with contracts under the authority of the Board of Regents are members of TRS or ORP. Effective July 1, 1993, the ORP became the mandatory retirement plan for new faculty and administrative staff. Pension Benefit Obligation is not available on an agency basis, but is available on a statewide basis from the Montana Retirement systems or TIAA-CREF.

ORP - The ORP is a defined contribution plan. The benefits at retirement depend upon the amount of investment gains and losses and the employee's life expectancy at retirement. Under the ORP, each employee enters into an individual contract with TIAA-CREF. Montana State University records employee/employer contributions, and remits monies to TIAA-CREF. Individuals are immediately vested with contributions.

TRS - This mandatory system established in 1937 and governed by Title 19, Chapter 4, MCA, as a cost-sharing multi-employer defined benefit pension plan that provides retirement services to all persons employed as teachers or professional staff of any public elementary or secondary school, vocational-technical center or unit of the University System. Eligibility is met with a minimum of 25 years of service or age 60 with 5 years of creditable service. The formula for accrual benefits is $1/60$ times creditable service times the average final compensation. Rights are vested after 5 years of creditable service. Vested employees may retire at or after age 50 and receive reduced retirement benefits. Additional information or a separate financial statement can be obtained from the State of Montana, Department of Administration, Teachers' Retirement Division, P.O. Box 200139, Helena, MT 59620-0139.

PERS - This mandatory system established in 1945 and governed by Title 19, Chapter 3, MCA, as a cost-sharing multi-employer defined pension plan that provides retirement services to substantially all public employees. Benefit eligibility is age 60 with at least 5 years of service: age 65 regardless of service: or 30 years of service regardless of age. Actuarially reduced benefits may be taken with 25 years of service or at age 50 with at least 5 years of service. Monthly retirement benefits are determined by taking $1/56$ times the number of years of service times the final average salary. Members rights become vested after 5 years of service. Additional information or a separate financial statement can be obtained from the State of Montana, Department of Administration, Public Employees' Retirement Division, P.O. Box 200131, Helena, MT 59620-0131.

FERS - This plan was signed into law in 1986 and is available to Federal employees joining the Extension Service staff without a break in service. This retirement plan contains defined benefit plan components, a Basic Benefit Plan and Social Security, and a defined contribution component, the Thrift Savings Plan (TSP). Basic benefits can be received at age 55 with as little as 10 years of service; minimum retirement benefits at age 62 with 5 years of service. The formula for basic benefits is 1% times the highest consecutive three-year-average

salary times years of service. At age 62, retirees are eligible for cost of living adjustments on retirement benefits. The TSP benefits at retirement depend upon the amount of employer contributions, employee voluntary contributions and investment gains and losses.

CSRS - This retirement plan is authorized under the Smith-Lever Act of 1914 as amended and is available to Federal employees joining the Extension Service staff without a break in service. CSRS is a defined benefit plan. The retirement benefits are based upon the highest consecutive three-year-average salary. Retirees are eligible for cost of living adjustments the year after retirement. Benefits can be received at age 55 with 30 years of service, age 60 with 20 years of service, or age 62 with five years of service.

<u>FY98</u>	<u>PERS</u>	<u>IRS</u>	<u>ORP</u>	<u>CSRS</u>	<u>FERS</u>
Covered Payroll ¹	\$24,985,706	\$26,077,753	\$32,987,667	\$ 2,042,163	\$ 721,171
Total Payroll	\$96,587,479	\$96,587,479	\$96,587,479	\$96,587,479	\$96,587,479
Employer Contributions	\$ 1,699,028	\$ 2,874,876 ²	\$ 1,634,955	\$ 164,896	\$ 78,368
% of Covered Payroll	6.800	7.470	4.956	7.000 Jul-Sept 8.510 Oct-Jun	11.400 Jul-Sept 10.700 Oct-Jun
Employee Contributions	\$ 1,699,028	\$ 1,836,917	\$ 2,323,651	# 142,951	\$ 5,769
% of Covered Payroll	6.800	7.044	7.044	7.000	.800

¹ Covered payroll excludes students employed under the College Workstudy programs and part-time student employees.

² For ORP Participants, a total of \$926,867 or 2.503% was contributed to TRS as employer contributions to amortize past service unfunded liability in accordance with Title 19, Chapter 21, MCA.

The amounts contributed to the plans during the years ended June 30, 1996, 1997, and 1998 were equal to the required contribution each year. The amounts contributed by the University and its employees were:

	<u>PERS</u>	<u>IRS</u>	<u>ORP</u>	<u>CSRS</u>	<u>FERS</u>
FY96	\$2,981,366	\$4,101,010	\$2,935,678	\$286,054	\$86,178
FY97	\$3,146,592	\$4,543,712	\$3,385,454	\$293,658	\$96,030
FY98	\$3,398,056	\$4,716,793	\$3,958,606	\$307,847	\$84,137

<u>FY99</u>	<u>PERS</u>	<u>IRS</u>	<u>ORP</u>	<u>CSRS</u>	<u>FERS</u>
Covered Payroll ¹	\$ 25,961,628	\$ 22,899,600	\$ 36,345,988	\$ 1,906,851	\$ 627,349
Total Payroll	\$100,645,468	\$100,645,468	\$100,645,468	\$100,645,468	\$100,645,468
Employer Contributions	\$ 1,765,391	\$ 2,830,981 ²	\$ 1,801,395	\$ 162,273	\$ 67,126
% of Covered Payroll	6.800	7.470	4.956	8.510	10.700
Employee Contributions	\$ 1,765,391	\$ 1,600,293	\$ 2,560,211	# 135,863	\$ 5,803
% of Covered Payroll	6.800	7.044	7.044	7.000 Jul-Dec 7.250 Jan-Jun	.800 Jul-Dec 1.050 Jan-Jun

¹ Covered payroll excludes students employed under the College Workstudy programs and part-time student employees.

² For ORP Participants, a total of \$1,133,907 or 3.12% was contributed to TRS as employer contributions to amortize past service unfunded liability in accordance with Title 19, Chapter 21, MCA.

The amounts contributed to the plans during the years ended June 30,

1996, 1997, and 1998 were equal to the required contribution each year. The amounts contributed by the University and its employees were:

	<u>PERS</u>	<u>IRS</u>	<u>ORP</u>	<u>CSRS</u>	<u>FERS</u>
FY97	\$3,146,592	\$4,543,712	\$3,385,454	\$293,658	\$96,030
FY98	\$3,398,056	\$4,716,793	\$3,958,606	\$307,847	\$84,137
FY99	\$3,530,782	\$4,431,274	\$4,361,606	\$298,136	\$72,929

7. Commitments and contingencies

Compensated absences payable:

As of December 31 of each year, employees can accumulate vacation leave up to twice the number of leave days earned annually and sick leave can be accumulated without limitation. Upon termination, the employee is paid the accumulated vacation leave and 25 percent of the accumulated sick leave. Vacation and sick leave payments are recorded as an expenditure at the time they are paid to the employee. Amounts recorded as compensated absences payable include employer benefits.

Capital projects:

As of June 30, 1999, the University has initiated construction on the following major capital projects:

<u>Project</u>	<u>Authorized</u>	<u>Expenditures as of 6/30/99</u>
Steam and condensate tunnel	\$ 8,643,027	\$ 7,704,163
Centennial Mall	1,600,000	1,233,846
Bioscience building	11,128,506	10,421,214
Pilot project	13,500,000	241,906
Heat Plant upgrade	2,082,650	1,872,765
93-A McIntosh Family Housing	4,100,000	4,005,536
93-A fire safety	1,200,000	1,003,922
Engineering Physical Science	3,380,725	3,350,000
Campus networking	1,715,705	1,387,929
Fieldhouse remodel	13,300,000	12,216,973
Stadium remodel	10,002,663	9,774,633
Parking	2,200,000	2,010,975
Tennis Bubble	267,400	259,040
Tennis support facility	236,000	0
Epi Center	2,000,000	596,930
	<u>\$67,753,436</u>	<u>\$47,136,189</u>

Leases:

The University reserves the right to limit the amount of expenditures associated with lease contracts without penalty when, in the sole judgment of the University, annual funding or program changes necessitate. Capital lease agreements for various purposes and time periods total \$280,269 June 30, 1999. The annual payments are:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1999-00	\$171,818	\$16,477	\$188,295
2000-01	83,286	6,604	89,890
2001-02	18,679	1,461	20,140
2002-03	4,719	352	5,071
2003-04	1,767	38	1,805
2004-on	0	0	0
Total	<u>\$280,269</u>	<u>\$24,932</u>	<u>\$305,201</u>

Fiber Debt:

The University is financing fiber optic cable plant under an installment loan agreement. As of June 30, 1999 the annual payments are:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1999-00	\$158,541	\$15,117	\$173,658
2000-01	97,505	5,756	103,261
2001-02	0	0	0
2002-03	0	0	0
2003-04	0	0	0
2004 on	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u>\$256,046</u>	<u>\$20,873</u>	<u>\$276,919</u>

Agricultural BioScience Debt

The University is financing a portion of the cost for the Agricultural BioScience Building through an InterCap Loan. Since interest rates are adjusted each year on March 1st, the amount of interest owed is unavailable on payments after FY00. The annual payments are:

<u>Fiscal Year</u>	<u>Payment</u>
1999-00	\$ 60,786
2000-01	54,607
2001-02	57,310
2002-03	60,023
2003-04	62,865
2005 on	<u>370,846</u>
Total	<u>\$666,437</u>

Norwest Bank Notes

- Purchase of a sound system for the Athletics department. Original amount of \$ 77,500 at 5.48% with five annual payments of \$18,138.72 beginning December, 1996. Remaining principle is \$33,499.00.

- Purchase of Central Line computer equipment and laser printers for Information Technology Center. Original amount of \$39,302.20 at 5.63% with three annual payments of \$14,602.79 beginning January, 1998. Remaining principle is \$13,824.00.

- Purchase of a video editing system for Media and Theatre Arts. Original amount of \$44,404.98 at 5.63% with five annual payments of \$10,435.70 beginning August, 1997. Remaining principle is \$28,087.00.

- Purchase of Integrated Library Computer System for the Library. Original amount \$150,000.00 at 5.28% with five annual payment of \$34,914.82 beginning December, 1998. Remaining principle is \$123,005.00.

- Purchase of Xerox 5100A Photocopier for University Printing. Original amount of \$63,237.00 at 6.18% with three annual payments of \$23,736.41 beginning June, 1997. Remaining principle is \$22,286.00.

All Norwest Bank Notes

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1999-00	\$ 68,903	\$ 9,179	\$ 78,082
2000-01	58,050	5,439	63,489
2001-02	43,043	2,307	45,350
2002-03	0	0	0
2003-04	0	0	0
2004 on	0	0	0
Total	<u>\$169,996</u>	<u>\$16,925</u>	<u>\$186,921</u>

Great Falls Debt:

The College of Technology-Great Falls is financing a telephone system and data and voice cabling with the loan proceeds. As of June 30, 1999 the annual payments are:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1999-00	\$21,018	\$2,323	\$23,341
2000-01	22,150	1,191	23,341
2001-02	0	0	0
2002-03	0	0	0
2003-04	0	0	0
2004 on	0	0	0
Total	<u>\$43,168</u>	<u>\$3,514</u>	<u>\$46,682</u>

8. Affiliated Organizations

Private nonprofit organizations affiliated with the University include MSU Alumni Association, MSU Athletic Scholarship Association, MSU Bookstore, MSU Foundation, MSU Friends of KUSM, The Museum of the Rockies, Inc., and the Research and Development Institute. These groups operate exclusively for the purposes of encouraging, promoting, and supporting educational programs, research, scholarly pursuits, and athletics at, or in connection with, the University. The MSU Foundation provided \$3,900,000 for scholarships and academic/institutional support and MSU paid them \$21,493 rent for office space in FY99 and \$4,200,000 support and \$21,481 rent in FY98. The Museum of the Rockies, Inc. paid \$300,000 in rent to MSU both in FY99 and FY98. The contribution from MSU Athletic Association was \$277,000 in FY99 and \$100,000 for FY98. Friends of Montana Public Television contributed \$324,316 in FY99 and \$349,900 in FY98.

9. Student FTE

<u>Session</u>	<u>Year</u>	<u>Undergraduate FTEs Reported¹</u>	<u>Graduate FTEs Reported²</u>	<u>Total FTEs³</u>
Summer	1998	1,000	206	1,206
Fall	1998	10,290	561	10,851
Spring	1999	9,608	580	10,188
Annual ⁴	1998-99	10,450	673	11,123

¹ Undergraduate semester credit hours divided by 15.

² Graduate semester credit hours divided by 12.

³ Includes both Unrestricted and Restricted funded FTEs.

⁴ In accordance with the Commissioner of Higher Education's policy

annual FTE is calculated by total undergraduate credit hours divided by 30 and total graduate credit hours divided by 24.

10. Subsequent Events

During FY97, the MSU-Bozeman students and the Board of Regents approved a student building fee to be used in support of a new academic building; fee collection began in FY98, and the planning process continues to define the nature and use of the building.

11. Year 2000

The Year 2000 issue is the result of shortcoming in many electronic data processing systems and other electronic equipment that may adversely affect the operations of Montana State University beginning in 1999. The problem is that many computer programs use only the last two digits when referring to a year. Many programs will not be able to distinguish between the year 2000 and the year 1900 or may not be able to recognize that 2000 is a leap year. This may cause inaccurate processing of information or a complete stoppage to operations.

Montana State University has been addressing the Year 2000 issue for the last two years. The major administrative support systems are in the process of being replaced or upgraded to systems that are Year 2000 compliant. These systems include Finance (purchasing, payables, receivables, and accounting), Human Resources (personnel and payroll), and Student (billing, financial aid, admissions, and registration).

Montana State University does not anticipate disruption of services as a result of non-compliant internal systems. However, because of the unprecedented nature of the Year 2000 issue and the interaction with and dependence on third parties, the effects of and the success of remedial efforts will not be fully determinable until fiscal year 2000 or thereafter.

Independent Auditor's Report & Montana State University-Billings Financial Statements

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel
Tori Hunthausen, IT & Operations Manager



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Balance Sheet of Montana State University-Billings, as of June 30, 1999, and the related Statements of Changes in Fund Balances and the Statements of Current Fund Revenues, Expenditures, and Other Changes for each of the two fiscal years then ended. The information contained in these financial statements is the responsibility of the Montana State University-Billings' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Montana State University-Billings as of June 30, 1999, and its changes in fund balances and the current fund revenues, expenditures, and other changes for the two fiscal years then ended, in conformity with generally accepted accounting principles.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "James Gillett", written over a horizontal line.

James Gillett, CPA
Deputy Legislative Auditor

October 28, 1999

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MONTANA STATE UNIVERSITY - BILLINGS
(A Component Unit of the State of Montana)
BALANCE SHEET

June 30, 1999

ASSETS

CURRENT FUNDS:

Unrestricted:

General Operating:

Cash	\$2,166,695
Due From Other Fund Groups	239,316
Accounts Receivable less Allowance for Doubtful Collections of \$56,250	527,070
Inventories (Note 1)	4,999
Prepaid Expenses	687,789

Total General Operating	3,625,869
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Designated:

Cash	2,696,331
Cash Equivalents (Note 2)	190,000
Cash Collateral-Securities Lending (Note 2)	10,158
Due From Other Fund Groups	121,923
Accounts Receivable	70,973
Inventories (Note 1)	177,923

Total Designated	3,267,308
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Auxiliary:

Cash	647,071
Cash Equivalents (Note 2)	909,900
Cash Collateral-Securities Lending (Note 2)	48,649
Due From Other Fund Groups	79,882
Accounts Receivable	110,002
Inventories (Note 1)	616,482
Prepaid Expenses	448,242

Total Auxiliary	2,860,228
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Total Unrestricted	9,753,405
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Restricted:

Cash	147,721
Cash Equivalents (Note 2)	746
Cash Collateral-Securities Lending (Note 2)	40
Due from Federal Government	52,647
Due from State Government	26,080
Due From Other Fund Groups	1,934
Accounts Receivable	33,214

Total Restricted	262,382
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TOTAL CURRENT FUNDS	\$10,015,787
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LOAN FUNDS:

Cash	\$94,234
Cash Equivalents (Note 2)	255,000
Cash Collateral-Securities Lending (Note 2)	13,634
Due from Other Fund Groups	1,025
Accounts Receivable	9,956
Loans Receivable	2,710,450

TOTAL LOAN FUNDS	\$3,084,299
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The notes are an integral part of this statement.

LIABILITIES AND FUND BALANCES

CURRENT FUNDS:

Unrestricted:

General Operating:

Accounts Payable and Accrued Liabilities	\$2,357,645
Compensated Absences Payable (Note 6)	1,956,458
Reversion Liability to State of Montana	1,548
Due To Other Fund Groups	169,703
Property Held In Trust	7,360
Deferred Revenue	1,012,114
Fund Balance-Unreserved	(1,878,959)

Total General Operating	3,625,869
--------------------------------	------------------

Designated:

Accounts Payable and Accrued Liabilities	107,408
Compensated Absences Payable (Note 6)	194,794
Liability Under Securities Lending (Note 2)	10,159
Due To Other Fund Groups	139,236
Deferred Revenue	72,398
Fund Balance-Unreserved	2,743,313

Total Designated	3,267,308
-------------------------	------------------

Auxiliary:

Accounts Payable and Accrued Liabilities	303,966
Compensated Absences Payable (Note 6)	108,859
Liability Under Securities Lending (Note 2)	48,649
Student Deposits	34,580
Due To Other Fund Groups	170,037
Deferred Revenue	267,239
Fund Balance-Unreserved	1,926,898

Total Auxiliary	2,860,228
------------------------	------------------

Total Unrestricted	9,753,405
---------------------------	------------------

Restricted:

Accounts Payable and Accrued Liabilities	19,303
Liability Under Securities Lending (Note 2)	40
Due To Other Fund Groups	100,116
Deferred Revenue	91,397
Fund Balance-Unreserved	51,526

Total Restricted	262,382
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TOTAL CURRENT FUNDS	\$10,015,787
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LOAN FUNDS:

Accounts Payable	\$138
Due to Other Fund Groups	946
Liability Under Securities Lending (Note 2)	13,634
Fund Balances:	
Perkins/National Direct Student Loans	
U.S. government grants refundable less cumulative cancellations and other reductions of \$199,894	2,688,645
College Contributions-Restricted	380,936
Total Fund Balances	3,069,581

TOTAL LOAN FUNDS	\$3,084,299
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MONTANA STATE UNIVERSITY - BILLINGS
(A Component Unit of the State of Montana)

BALANCE SHEET

June 30, 1999

ASSETS

ENDOWMENT FUNDS:

Cash Equivalents (Note 2)	\$12,400
Cash Collateral - Securities Lending (Note 2)	663

TOTAL ENDOWMENT FUNDS	\$13,063
------------------------------	-----------------

PLANT FUNDS:

Unexpended:

Cash	\$118,891
Cash Equivalents (Note 2)	3,716,198
Cash Collateral - Securities Lending (Note 2)	18,285
Due From Other Fund Groups	54,455
Accounts Receivable	27,098
Construction Work In Progress	6,380,191

Total Unexpended	10,315,118
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Renewals and Replacements:

Cash	191,473
Cash Equivalents (Note 2)	2,615,818
Investments (Note 2)	585,566
Cash Collateral - Securities Lending (Note 2)	126,810
Due From Other Fund Groups	13,604
Accounts Receivable	12,195

Total Renewals and Replacements	3,545,466
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Retirement of Indebtedness:

Cash	10,983
Cash Equivalents (Note 2)	96,850
Cash Collateral - Securities Lending (Note 2)	2,711
Due From Other Fund Groups	113,672

Total Retirement of Indebtedness	224,216
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Investment in Plant (At Cost of Acquisition):

Intangible Assets	798,835
Land	1,540,610
Buildings	34,945,793
Other Improvements	1,591,218
Equipment	4,337,104
Library Books	4,926,232
Construction Work In Progress	2,947,813

Total Investment in Plant	51,087,605
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TOTAL PLANT FUNDS	\$65,172,405
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AGENCY FUNDS:

Cash	\$119,024
Due From Other Fund Groups	1,008
Accounts Receivable	5,701

TOTAL AGENCY FUNDS	\$125,733
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LIABILITIES AND FUND BALANCES

ENDOWMENT FUNDS:

Liability Under Securities Lending (Note 2)	\$663
Fund Balance-Reserved	12,400

TOTAL ENDOWMENT FUNDS	\$13,063
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PLANT FUNDS:

Unexpended:

Accounts Payable and Accrued Liabilities	\$413,597
Liability Under Securities Lending (Note 2)	18,285
Due to Other Fund Groups	5,442
Deferred Revenue	8,339
Bonds Payable (Note 4)	8,710,246
Fund Balance-Unreserved	503,757
Fund Balance-Reserved	655,452

Total Unexpended	10,315,118
-------------------------	-------------------

Renewals and Replacements:

Accounts Payable and Accrued Liabilities	45,273
Liability Under Securities Lending (Note 2)	126,810
Due To Other Fund Groups	1,195
Deferred Revenue	67,311
Fund Balance-Unreserved	2,654,877
Fund Balance-Reserved	650,000

Total Renewals and Replacements	3,545,466
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Retirement of Indebtedness:

Accrued Bond Interest Payable	113,429
Liability Under Securities Lending (Note 2)	2,711
Fund Balance-Restricted	108,076

Total Retirement of Indebtedness	224,216
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Investment in Plant:

Contract and Notes Payable (Note 6)	267,784
Bonds Payable (Note 4)	8,999,754
Net Investment in Plant	41,820,067

Total Investment in Plant	51,087,605
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TOTAL PLANT FUNDS	\$65,172,405
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AGENCY FUNDS:

Accounts Payable	\$9,684
Due To Other Fund Groups	40,142
Property Held in Trust	75,907

TOTAL AGENCY FUNDS	\$125,733
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The notes are an integral part of this statement.

MONTANA STATE UNIVERSITY - BILLINGS
(A Component Unit of the State of Montana)
STATEMENT OF CHANGES IN FUND BALANCES
FISCAL YEAR ENDED JUNE 30, 1999

	CURRENT FUNDS				LOAN FUND	ENDOW- MENT FUND	PLANT FUNDS			
	Unrestricted		Designated	Auxiliary			Unexpended	Renewals & Replacements	Retirement of Indebtedness	Investment in Plant
	General Operating	Restricted								
Revenues and Other Additions:										
Tuition and Fees	\$8,949,208	\$2,092,959		\$1,224,614			\$138,469	\$472,894		
State Appropriations	13,556,313									
Sales, Services, and Miscellaneous	2,808	1,711,392		5,367,363	\$463		6,206	35,953		
Federal Grants and Contracts					98,980					
State Grants and Contracts		96,400			16,172					
Other Grants, Contracts, and Donations					490,911					
Indirect Cost Recoveries	56,669	68,526								
Land Grant Income				262,484						
Investment Income	127,632	108,693		93,086	12,539		296,943	194,016	\$8,446	
Securities Lending Income	498	430		194	44		58	480	10	
Loan Proceeds							251,155			
Interest Earned on Loans					55,765				\$4,085,478	
Investment in Plant Facilities									619,887	
Retirement of Indebtedness										
Total Revenues and Other Additions	22,693,128	4,078,400		6,947,741	183,963		692,831	703,343	8,456	
Expenditures and Other Deductions:										
Current Funds Expenditures	22,718,020	3,042,914		5,925,594	69,332					
Loan Cancellations/Write-offs/Collection Costs										
Expended for Plant Facilities							718,153	576,799	9,534	
Retirement of Indebtedness									525,817	
Interest on Indebtedness									915,089	
Disposal of Plant Facilities									245,941	
Incurrence of Debt									1,267,345	
Total Expenditures and Other Deductions	22,718,020	3,042,914		5,925,594	69,332		718,153	576,799	1,450,440	
Transfers Among Funds and Additions (Deductions):										
Compensated Absences	(145,702)	(20,397)		(20,734)						
Mandatory Transfers		(339,216)		(1,094,780)				1,433,996		
Nonmandatory Transfers		21,000		(21,000)			118,322	(162,496)	44,174	
Debt Service		(452)		(329)			(10,389)			
Reversion to State of Montana	(1,548)									
Total Transfers and Additions (Deductions)	(147,250)	(339,065)		(1,136,843)			107,933	(162,496)	1,478,170	
Net Increase (Decrease) in Fund Balance	(\$172,142)	\$696,421		(\$114,696)	\$1,956	\$114,631	\$82,611	(\$35,952)	\$36,186	
Beginning Fund Balance										
Net Effect of Prior Period Adjustments	(1,707,613)	2,003,665		2,043,347	2,954,950		12,400	3,453,366	73,114	
Residual Equity Transfer	796	20,409		7,931			(213,998)	(20,059)		
Move Equity to Net Investment in Plant		22,818		(9,684)			5,654	(62,890)	(1,224)	
							177,801	(29,588)		
Fund Balance at End of Year	(\$1,878,959)	\$2,743,313		\$1,926,898	\$51,526	\$3,069,581	\$1,159,209	\$3,304,877	\$108,076	
									\$41,820,067	

STATEMENT OF CHANGES IN FUND BALANCES

FISCAL YEAR ENDED JUNE 30, 1998

	CURRENT FUNDS			LOAN FUND	ENDOWMENT FUND	PLANT FUNDS		
	Unrestricted		Restricted			Unexpended	Renewals & Replacements	Retirement of Indebtedness
	General Operating	Designated	Auxiliary					
Revenues and Other Additions:								
Tuition and Fees	\$8,209,508	\$1,324,373	\$1,284,717			\$47,569	\$463,325	
State Appropriations	12,621,590							
Sales, Services, and Miscellaneous	7,065	1,545,976	5,152,283	\$489			6,078	
Federal Grants and Contracts			\$3,758,945	130,650				
State Grants and Contracts		71,714	724,329	18,626				
Other Grants, Contracts, and Donations			487,987					
Indirect Cost Recoveries	59,118	87,508						
Land Grant Income			238,281					
Investment Income	182,901	53,584	93,786	9,550		434,709	217,917	\$7,984
Securities Lending Income	99	146	89	18		10	184	5
Interest Earned on Loans				59,418				
Investment in Plant Facilities								\$2,198,834
Retirement of Indebtedness								355,095
Bond Proceeds								47,573
Total Revenues and Other Additions	21,080,281	3,083,301	6,769,156	4,971,261	218,751	482,288	687,504	55,562
Expenditures and Other Deductions:								
Current Funds Expenditures	20,982,489	2,985,558	6,022,373	4,976,284				
Loan Cancellations/Write-offs/Collection Costs					90,367			
Expended for Plant Facilities						334,518	252,924	
Retirement of Indebtedness								300,587
Interest on Indebtedness								842,994
Disposal of Plant Facilities								4,938,893
Incurrence of Debt								534,033
Total Expenditures and Other Deductions	20,982,489	2,985,558	6,022,373	4,976,284	90,367	334,518	252,924	1,143,581
Transfers Among Funds and Additions (Deductions):								
Compensated Absences	(94,525)	(316)	(4,515)					
Mandatory Transfers			(1,095,533)					1,095,533
Nonmandatory Transfers	(33,000)	(31,032)	(30,000)			25,800	68,232	
Reversion to State of Montana	(7,236)							
Total Transfers and Additions (Deductions)	(134,761)	(31,348)	(1,130,048)			25,800	68,232	1,095,533
Net Increase (Decrease) in Fund Balance	(\$36,969)	\$66,395	(\$383,265)	(\$5,023)	\$128,384	\$173,570	\$502,812	\$7,514
Beginning Fund Balance	(1,670,644)	1,907,646	2,395,370	54,593	2,826,566	12,400	3,000,261	65,600
Net Effect of Prior Period Adjustments		19,662	31,242				(4,720)	41,546,985
Residual Equity Transfer		9,962						
Move Equity to Net Investment in Plant						(777,456)	(44,987)	
Fund Balance at End of Year	(\$1,707,613)	\$2,003,665	\$2,043,347	\$49,570	\$2,954,950	\$1,107,141	\$3,453,366	\$73,114
								\$38,627,988

The notes are an integral part of this statement.

MONTANA STATE UNIVERSITY - BILLINGS
(A Component Unit of the State of Montana)
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE FISCAL YEAR ENDED JUNE 30, 1999

Unrestricted			Restricted	Total
General Operating	Designated	Auxiliary		

Revenues:

Tuition and Fees	\$ 8,949,208	\$2,092,959	\$1,224,614		\$12,266,781
State Appropriations	13,556,313				13,556,313
Sales, Services and Miscellaneous	2,808	1,711,392	5,367,363		7,081,563
Federal Grants and Contracts				\$4,190,844	4,190,844
State Grants and Contracts		96,400		608,297	704,697
Other Grants, Contracts, and Donations				490,911	490,911
Indirect Cost Recoveries	56,669	68,526			125,195
Land Grant Income			262,484		262,484
Investment Income	127,632	108,693	93,086		329,411
Securities Lending Income	498	430	194		1,122

Total Revenues	22,693,128	4,078,400	6,947,741	5,290,052	39,009,321
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Expenditures and Mandatory Transfers:

Educational and General

Instruction	12,040,515	887,900		423,889	13,352,304
Research	60,701			67,773	128,474
Public Service	310,903	716,261		353,343	1,380,507
Academic Support	2,041,069	57,636		17,368	2,116,073
Student Services	2,285,713	1,287,290		664,497	4,237,500
Institutional Support	2,536,268	432,565		3,156	2,971,989
Operation and Maintenance of Plant	2,607,386	478			2,607,864
Scholarships and Fellowships	835,465			3,758,070	4,593,535

Total Educational and General	22,718,020	3,382,130		5,288,096	31,388,246
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Auxiliary Enterprises

Expenditures			5,925,594		5,925,594
Mandatory Transfers:					
Principal & Interest			1,094,780		1,094,780

Total Auxiliary			7,020,374		7,020,374
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Total Expenditures and Mandatory Transfers	22,718,020	3,382,130	7,020,374	5,288,096	38,408,620
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Other Transfers and Additions (Deductions):

Current Year Change in Compensated Absences	(145,702)	(20,397)	(20,734)		(186,833)
Nonmandatory Transfers	-	21,000	(21,000)		
Debt Service		(452)	(329)		(781)
Reversion to State of Montana	(1,548)				(1,548)

Total Other Transfers and Additions (Deductions)	(147,250)	151	(42,063)		(189,162)
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Net Increase (Decrease) in Fund Balance	\$ (172,142)	\$696,421	(\$114,696)	\$1,956	\$411,539
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The notes are an integral part of this statement.

MONTANA STATE UNIVERSITY - BILLINGS
(A Component Unit of the State of Montana)
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE FISCAL YEAR ENDED JUNE 30, 1998

Unrestricted			Restricted	Total
General Operating	Designated	Auxiliary		

Revenues:

Tuition and Fees	\$ 8,209,508	\$1,324,373	\$1,284,717		\$10,818,598
State Appropriations	12,621,590				12,621,590
Sales, Services and Miscellaneous	7,065	1,545,976	5,152,283		6,705,324
Federal Grants and Contracts				\$3,758,945	3,758,945
State Grants and Contracts		71,714		724,329	796,043
Other Grants, Contracts, and Donations				487,987	487,987
Indirect Cost Recoveries	59,118	87,508			146,626
Land Grant Income			238,281		238,281
Investment Income	182,901	53,584	93,786		330,271
Securities Lending Income	99	146	89		334
Total Revenues	21,080,281	3,083,301	6,769,156	4,971,261	35,903,999

Expenditures and Mandatory Transfers:

Educational and General

Instruction	11,070,187	830,248		570,721	12,471,156
Research	20,520			93,630	114,150
Public Service	244,115	693,136		336,960	1,274,211
Academic Support	2,002,222	106,289		14,468	2,122,979
Student Services	2,088,950	1,181,372		747,977	4,018,299
Institutional Support	2,178,175	173,783			2,351,958
Operation and Maintenance of Plant	2,561,168	730			2,561,898
Scholarships and Fellowships	817,152			3,212,528	4,029,680
Total Educational and General	20,982,489	2,985,558		4,976,284	28,944,331

Auxiliary Enterprises

Expenditures			6,022,373		6,022,373
Mandatory Transfers:					
Principal & Interest			1,095,533		1,095,533
Total Auxiliary			7,117,906		7,117,906

Total Expenditures and Mandatory Transfers	20,982,489	2,985,558	7,117,906	4,976,284	36,062,237
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Other Transfers and Additions (Deductions):

Current Year Change in Compensated Absences	(94,525)	(316)	(4,515)		(99,356)
Nonmandatory Transfers	(33,000)	(31,032)	(30,000)		(94,032)
Reversion to State of Montana	(7,236)				(7,236)
Total Other Transfers and Additions (Deductions)	(134,761)	(31,348)	(34,515)		(200,624)

Net Increase (Decrease) in Fund Balance	(36,969)	\$66,395	(\$383,265)	(\$5,023)	(\$358,862)
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MONTANA STATE UNIVERSITY-BILLINGS
(A Component Unit of the State of Montana)
Notes to Financial Statements
June 30, 1999

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

MSU-Billings (formerly Eastern Montana College):

In January of 1994, the Montana Board of Regents of Higher Education approved the restructuring of the Montana University System. As part of that restructuring, effective July 1, 1994, Montana State University-Bozeman was given administrative oversight of Eastern Montana College and the name of the institution was changed to Montana State University-Billings (MSU-Billings). In addition, the Billings Vocational Technical Center was merged as a college of MSU-Billings and was renamed the MSU-Billings College of Technology. The accompanying financial statements represent the activities of MSU-Billings (including the College of Technology) and exclude those of MSU-Bozeman.

Financial Statements:

In accordance with GASB #15, the University has adopted the American Institute of Certified Public Accountants' (AICPA) "College Guide Model" for presentation of its financial statements.

The financial statements of Montana State University-Billings are included as a part of the higher education component unit of the State of Montana Comprehensive Annual Financial Report (CAFR).

The accompanying financial statements of MSU-Billings are prepared on the accrual basis in accordance with generally accepted accounting principles for colleges and universities, except for allowance for uncollectible loans as explained in Note 3 to the financial statements.

The statement of Current Funds Revenues, Expenditures, and Other Changes is a statement of financial activities of current operating funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period.

Fund Accounting:

In order to ensure observance of limitations and restrictions placed on the use of the resources available to the University, the accounts are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified into funds that are in accordance with specified activities or objectives. Separate accounts are maintained for each fund, however, accounts with similar characteristics have been combined into fund groups and reflected as such in the accompanying financial statements.

Current funds include unrestricted funds allocated to specific purposes by action of the Board of Regents and funds restricted by outside sources. Externally restricted funds may only be utilized in accordance with the purposes established by the source of such funds. Current unrestricted funds include general operating, designated and auxiliary services. Other funds used are the loan fund for student loans, the endowment fund for recording donor restricted funds prohibiting the expenditure of the principal, the plant fund for recording investments in University property, and the agency fund for recording assets held by the University as custodian or fiscal agent for others.

To the extent that current funds are used to finance plant assets, the amounts so provided are reported as (1) expenditures, in the case of normal replacement of movable equipment and library books; (2) mandatory transfers in the case of required provisions for debt amortization, interest, equipment renewal and replacement; and (3) transfers of a nonmandatory nature for all other cases.

Gains and losses arising from the sale, collection or other disposition of investments and other non-cash assets are reported in the fund that owned such assets. Ordinary income derived from investments, receivables and the like, is reported in the fund owning such assets. Restricted revenue derived from gifts, grants, appropriation and other restricted sources are reported in the appropriate funds.

Fixed Assets:

Fixed assets are valued at cost when purchased or constructed or, if acquired by gift, at the estimated fair market value at date of gift.

No provision has been made for depreciation of plant facilities in accordance with Governmental Accounting Standard No. 8, "Applicability of FASB Statement No. 93, Recognition of Depreciation by Not-for-Profit Organizations" which states that governmental colleges and universities should not change their accounting and reporting for depreciation of capital assets as a result of FASB Statement No. 93.

Inventories:

The University's policy is to record supplies inventories for certain educational and service departments in addition to inventories held for resale in auxiliary enterprises such as the bookstore and vending operations. All recorded inventories are stated at the lower of cost or market using the first-in, first-out method.

Other:

In accordance with generally accepted accounting principles, the University does not recognize liabilities for items ordered before June 30 but not yet received.

Summer session tuition and fee revenues and expenditures are deferred at June 30 and recorded as revenue and expenditures in the succeeding fiscal year.

Other significant accounting policies are set forth in the accompanying financial statements and notes thereto.

Note 2 - CASH EQUIVALENTS AND INVESTMENTS

Cash Equivalents and Investments at June 30, 1999 consisted of the following:

	<u>Held by the State of Montana Board of Investments</u>	<u>Held by Trustee</u>
Cash Equivalents	\$ 4,132,525	\$ 3,664,387
Investments		\$ 585,566
Total	<u>\$ 4,132,525</u>	<u>\$ 4,249,953</u>

Investments consist primarily of amounts invested through the Montana State Board of Investments using its short-term investment pool (STIP) and U.S. Treasury Bills, and by the trustees as required by the bond indenture. The STIP portfolio includes asset-backed securities, banker's acceptances, certificates of deposit, commercial paper, corporate and government securities, repurchase agreements, variable-rate instruments, and covered options. STIP investments are recorded at amortized cost. The STIP unit value is fixed at \$1.00. All the securities held as cash equivalents and investments by the bond trustee are risk category 1, which means the securities are insured or registered.

In accordance with GASB 31, investments maturing within one year or less at the time of purchase are recorded at amortized cost. Investments with maturities of one year or more are recorded at fair market value, which is obtained from the trustee statement. The difference between cost and market value of investments at June 30, 1999 was \$18,069. Investment income is generally recorded when received. Investment Appreciation Income was decreased by \$13,171 in the financial statements for fiscal year 1999 and was increased by \$31,240 in fiscal year 1998.

Under the provision of state statutes, the Montana Board of Investments authorized the custodial bank to lend its securities to broker dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The Board lent certain securities and received US dollar currency cash, US government securities and irrevocable bank letters of credit. The custodial bank does not have the ability to pledge or sell collateral securities unless the borrower defaults. During the loan period, the Board retains all rights and risks of ownership. There were no restrictions on the amount of securities loaned. There were no losses resulting from default of borrowers and the Board had no credit risk exposure to borrowers. The relationship between the average maturities of the investment pool and loans was affected by the maturities of loans made by other plan entities that invested cash collateral in the collective investment pool, which the Board could not determine. The Securities Lending Collateral Investment Pool recorded in the financial statements is \$220,950 which is not categorized. Securities lending income was \$36,382 in fiscal year 1999.

and \$22,685 in fiscal year 1998. Securities lending costs were \$34,668 in fiscal year 1999 and \$22,134 in fiscal year 1998, leaving net securities lending income of \$1,714 in fiscal year 1999 and \$551 in fiscal year 1998.

Note 3 - ALLOWANCE FOR DOUBTFUL ACCOUNTS - LOAN FUNDS

No provision for uncollectible Perkins, formerly National Direct Student Loans, has been provided for in the accompanying financial statements. The University follows accounting practices for the Perkins Loan Fund that are in accordance with government regulations. Those regulations do not provide for recognition of interest receivable or future loan cancellations by the government. To that extent the portion of the financial statements relating to loan funds are at variance with generally accepted accounting principles. However, 90% of any interest receivable or uncollectible loans and 100% of government cancellations would add to or reduce the U.S. Government's portion of the fund balance and, therefore, would not have significant effect on the overall financial position of the University.

Note 4 - BONDS PAYABLE

Series 1998-F:

On June 1, 1998, Montana State University issued Series F 1998 revenue bonds. MSU-Billings' share of the bonds was \$2,275,000, with interest rates ranging from 3.65% to 4.3%. The proceeds from the sale of the bonds were used for the purchase and implementation of new computing hardware, infrastructure and the associated software that is fully compliant with Year 2000 demands.

The Series F 1998 bonds payable is secured by an additional pledged revenue of a new student information technology fee.

At June 30, 1999 the Series F 1998 outstanding bond payable amount was \$2,025,000 with 3.85% to 4.3% annual installments through 2005.

Series 1996-D:

On August 21, 1996, Montana State University issued Series D 1996 Facilities Improvement and Refunding Revenue Bonds. MSU-Billings' share of the bonds was \$16,680,000, with interest rates ranging from 3.6% to 5.625%. The bonds were issued for various construction projects and to advance refund outstanding Series C 1994 bonds, which have been defeased and removed from the University's records.

The Series D 1996 bonds payable are secured by a first lien on and a pledge of net revenues derived directly or indirectly from (a) all student building fees and student union use fees assessed against students attending the University, (b) all land grant income received by the University, and (c) the operation and use of the income facilities.

At June 30, 1999 the Series D 1996 outstanding bonds payable amount was \$15,685,000 with 4.25% to 5.625% annual installments through 2026.

Montana Board of Regents/College of Technology:

The Montana Board of Regents entered into an agreement in March of 1990 with Yellowstone Co. School District 2 to buy real estate for the College of Technology. The purchase agreement was for \$1,147,648. This amount was calculated with reference to certain bond obligations payable by the School District for previously issued general obligation bonds. The final payment on these bonds was made during fiscal year 1999 and the debt has been removed from the University's records.

Annual debt service requirements for the next five years, including interest, are as follows:

Year Ending	1996 Series D	1998 Series F
<u>June 30,</u>	<u>Payment</u>	<u>Payment</u>
2000	1,103,676	332,789
2001	1,101,277	332,713
2002	1,103,154	332,045
2003	1,099,173	335,600
2004	1,099,268	333,430
2005-2026 (cumulative)	<u>24,241,700</u>	<u>667,578</u>
Total	<u>\$29,748,248</u>	<u>\$2,334,155</u>

In prior years, the University defeased certain bond issues by placing proceeds of new bonds in an irrevocable trust. The proceeds, together with interest earned thereon, will be sufficient for future debt service payments on the refunded issues. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's financial statements. At June 30, 1999, \$715,000 of principal bonds outstanding is considered defeased.

Note 5 - RETIREMENT PROGRAMS

Employees of MSU-Billings who are eligible to participate in retirement programs are all members of the Public Employees' Retirement System (PERS), the Game Wardens & Peace Officer's Retirement System (GWPORS), the Montana Teachers Retirement System (TRS) or the Optional Retirement Program (ORP). Only faculty and administrators with contracts under the authority of the Board of Regents are members of TRS or ORP. Effective July 1, 1993 the ORP became the mandatory retirement plan for new faculty and administrative staff.

Pension Benefit Obligation information is not available on an agency basis, but is available on a statewide basis from the Montana Retirement Systems. The reports can be obtained from:

PERS/GWPORS
P.O. Box 200131
1712 Ninth Ave
Helena, MT 59620
(406)444-3154

TRS
1500 6th Avenue
Helena, MT 59620
(406)444-3134

TIAA-CREF
Republic Plaza, Suite 200
370 17th Street
Denver, CO 80202-5602
(800)842-2776

Defined Benefit Plans:

TRS - This system was established in 1937 and governed by Title 19, chapter 20, MCA. TRS participants are eligible to retire with a minimum 25 years of membership service or five years of creditable service at age 60. A retirement benefit is 1/60 times the years of service times the average final compensation. An employee is vested in TRS following completion of five years of creditable service. Vested employees may retire at or after age 50 and receive a reduced retirement benefit. Effective July 1, 1993, new faculty and administrative staff are no longer eligible for TRS, unless they already have an existing TRS plan.

PERS - Established in 1945 and governed by Title 19, chapter 3, MCA, PERS participants are eligible to retire at age 60 with at least five years of service, at age 65 regardless of length of service or at 30 years of service regardless of age. A reduced retirement benefit may be taken with 25 years of service or at age 50 with a minimum of five years of service. Effective January 1, 1989, monthly retirement benefits are calculated by taking 1/56 times the years of service times the final average salary. Vesting occurs once membership service totals 5 years.

GWPORS – This system was established in 1963 and governed by Title 19, chapter 8, MCA, to provide retirement services for all persons employed as game wardens. Effective July 1, 1997, this system became the mandatory retirement system for campus security officers employed by the university system, unless they already hold membership in PERS. Participants are eligible to retire after completing 20 years of service and reaching age 50. Early retirement with a reduced benefit may be taken after completing 5 years of service and reaching age 55. The retirement formula is 2% of the final average salary (FAS) per year of service. There is a 5 year vesting period.

Defined Contribution Plan:

ORP - Established under the authority of Title 19, chapter 21, MCA, ORP provides benefits at retirement which are dependent upon the amount of contributions, investment gains and losses, employee's life expectancy, and the selected contract option. Individuals are immediately vested with contribution. This fund is underwritten by the Teachers' Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF).

Retirement Plan Information for the year ended June 30, 1999

	PERS	GWPORS	TRS	ORP (TIAA-CREF)
Covered Payroll	\$ 5,360,294	\$ 8,833	\$ 5,802,486	\$ 5,381,195
Total Payroll	\$17,698,371	\$17,698,371	\$17,698,371	\$17,698,371
Employer Contributions	\$ 364,500	\$ 795	\$ 433,446	\$ 266,692
Percent of Covered Payroll	6.800	9.000	7.470	4.956
Employee Contributions	\$ 364,500	\$ 751	\$ 408,727	\$ 379,051
Percent of Covered Payroll	6.800	8.500	7.044	7.044

For ORP participants, a total of \$167,893 or 3.12% in 1999 and \$141,661 or 2.81% in 1998 of covered payroll was contributed to TRS from employer contributions to amortize past service unfunded liability in accordance with Title 19, Chapter 21, MCA.

Note 6 - COMMITMENTS AND CONTINGENT LIABILITIES

Construction Projects:

Project administration for major construction projects of the University is performed by the Architecture and Engineering (A&E) Division of the Montana Dept. of Administration. Those projects noted with LRBP are either entirely or partially funded by the State's Long Range Building Program in which funds are appropriated to A&E to administer the project on behalf of the University.

At June 30, 1999 construction projects include:

<u>Project</u>	<u>Authorized Spending Authority</u>	<u>Remaining Spending Amount</u>	<u>Funding Source</u>
Electrical Distribution System	\$1,435,960	\$ 101,391	96D Bonds (\$307K) / State LRBP (\$1,129K)
Parking Garage	5,182,020	28,215	96D Bonds
Family Housing Project	1,300,000	391,161	96D Bonds
LA Field (Peaks to Plains)	710,000	433,616	96D Bonds
Special Ed Building Edition	7,923,544	4,907,314	University (\$527K)/State LRBP (\$7,396K)
ADA Projects	279,718	159,066	State LRBP
COT Roof	475,000	97,865	State LRBP
Day Care Center	50,000	40,898	96D Bonds
McMullen Carillon	40,000	40,000	96D Bonds
Gym Renovation	398,000	388,728	96D Bonds
28 th St Acquisition	65,000	61,318	96D Bonds
University Landmarks	50,000	42,906	96D Bonds
Tennis Bubble	50,000	50,000	96D Bonds

Capital Leases:

During fiscal year 1999, the University entered into a capital lease agreement with Capital Acceptance Corporation for a security system. The lease term is from February of 1999 to January of 2002. As of June 30, 1999, annual principal and interest payments are:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>June 30,</u>			
2000	439	125	564
2001	496	68	564
2002	272	10	282
Total	<u>\$1,207</u>	<u>\$ 203</u>	<u>\$1,410</u>

Contracts and Notes Payable:

Process Plant Technology Loan – During fiscal year 1999, the University received a loan from the Montana Board of Investments InterCap Revolving Program. Proceeds of \$251,155 were used to finance renovations at the College of Technology to accommodate the Process Technology Plant program. As of June 30, 1999, annual principal and projected interest payments are:

Year Ending			
<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2000	21,004	11,693	32,697
2001	22,024	10,703	32,727
2002	23,105	9,592	32,697
2003	24,240	8,458	32,698
2004	25,429	7,268	32,697
2005-2008	<u>130,774</u>	<u>16,364</u>	<u>147,138</u>
Total	<u>\$246,576</u>	<u>\$64,078</u>	<u>\$310,654</u>

Athletic Loan – During fiscal year 1999, the University received a loan from Norwest Investment Services. Proceeds of \$20,000 were used to finance the purchase of athletic equipment. As of June 30, 1999, annual principal and interest payments are:

Year Ending			
<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2000	4,393	1,740	6,133
2001	4,775	1,358	6,133
2002	5,190	943	6,133
2003	<u>5,642</u>	<u>491</u>	<u>6,133</u>
Total	<u>\$20,000</u>	<u>\$4,532</u>	<u>\$24,532</u>

Operating Leases:

Total rental payments for operating leases were \$188,441 in fiscal year 1999 and \$183,469 in fiscal year 1998. Certain scheduled rental payments for operating leases over the next five years of \$447,562 have been prepaid by the University.

Compensated Absences:

In accordance with FASB Statement No. 43 "Accounting for Compensated Absences", the liability and charge for compensated absences related to current and previous years are recorded in the unrestricted current funds. At June 30, 1999, the value of unused vacation, sick leave and related benefits accumulated by employees was \$2,260,111. Compensated absences liability increased by \$186,833 during fiscal year 1999 and by \$99,356 in fiscal year 1998.

In accordance with GASB #16, estimated employer payments related incrementally to payroll are included in compensated absences.

Eligible employees may accumulate and carry to the following calendar year, two times the maximum number of vacation days earned annually. Unused vacation leave is purchased at full value from employees upon termination. Sick leave can be accumulated without limitation and unused sick leave earned since July 1, 1971 is purchased from all employees at twenty-five percent of its value upon termination.

Federal Income Tax:

Although the University is exempt from federal income tax as an instrumentality of the State of Montana, certain income generated may be considered unrelated business income by the Internal Revenue Service. The Montana University System files appropriate tax returns with the IRS to report such income.

Note 7 - AFFILIATED ORGANIZATIONS

Montana State University-Billings is a component unit of the State of Montana. These financial statements include only the activities, funds, and accounts of the University.

Private nonprofit organizations affiliated with the University include the Friends of KEMC and the MSU-Billings Foundation (including the Sting Athletic Association and the Alumni Association). The affiliated organizations operate exclusively for the purposes of encouraging, promoting, and supporting educational programs, research, scholarly pursuits and athletics at or in connection with the University.

Friends of KEMC transferred \$322,500 in fiscal year 1999 and \$281,000 in fiscal year 1998 to the University in support of KEMC operations. In addition, Friends of KEMC donated building and land improvements done at their location (406 Marbara) to the University. The improvements include renovation of the building and grounds (owned by the University) and are valued at \$345,961.

The Foundation transferred \$602,992 in fiscal year 1999 and \$498,581 in fiscal year 1998 to the University in support of academic, athletic and support programs. The University transferred \$333,889 in fiscal year 1999 and \$240,599 in fiscal year 1998 to the Foundation for contract and miscellaneous payments.

The University Book Depot has a lease agreement with the Foundation for space in the Professional Building. The current term of the lease is from July 1, 1999 through June 30, 2000 at a rate of \$585 per month.

The above amounts are included in the accompanying financial statements.

The University provides the Foundation with office space and related expenses, valued at \$30,000 as in-kind contributions for fiscal year 1999 and 1998.

Note 8 – YEAR 2000

The Year 2000 (Y2K) issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the operations of MSU-Billings beginning in the year 1999. The problem is that many computer programs use only the last two digits when referring to a year. Many programs will not be able to distinguish between the year 2000 and the year 1900. This may cause inaccurate processing of information or a complete halt to processing.

MSU-Billings has been addressing the Y2K issue for the last three years. The major administrative support systems are in the process of being replaced or upgraded to systems that are Year 2000 compliant. These systems include Finance (purchasing, payables and accounting), Human Resources (personnel and payroll) and Student (billing, financial aid, admissions and registrar).

MSU-Billings does not anticipate any disruption of services as a result of non-compliant internal systems. However, because of the unprecedented nature of the Y2K issue and the interaction with and dependence on third parties, the effects of and the success of remedial efforts will not be fully determinable until fiscal year 2000 and thereafter.

Note 9 – CHANGES IN ACCOUNTING AND REPORTING

Change in Capitalization Policy:

The State of Montana fixed asset capitalization policy was changed July 1, 1997. The capitalization level was increased from a unit value of \$1,000 to a unit value of \$5,000. In fiscal year 1998, 2,157 equipment items with a unit value of less than \$5,000 and a total value of \$4,697,408 were removed from the University financial records.

Independent Auditor's Report & Montana State University-Northern Financial Statements

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel
Tori Hunthausen, IT & Operations Manager



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Balance Sheet of Montana State University-Northern, as of June 30, 1999, and the related Statements of Changes in Fund Balances and the Statements of Current Fund Revenues, Expenditures, and Other Changes for each of the two fiscal years then ended. The information contained in these financial statements is the responsibility of the Montana State University-Northern's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Montana State University-Northern as of June 30, 1999, and its changes in fund balances and the current fund revenues, expenditures, and other changes for the two fiscal years then ended, in conformity with generally accepted accounting principles.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "James Gillett".

James Gillett, CPA
Deputy Legislative Auditor

November 10, 1999

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MONTANA STATE UNIVERSITY - NORTHERN
(A COMPONENT UNIT OF THE STATE OF MONTANA)
BALANCE SHEET
June 30, 1999

	CURRENT FUNDS		LOAN FUNDS
	Unrestricted	Restricted	
ASSETS			
Cash	\$128,803	\$26,690	\$124,437
Receivables	607,312	60,957	8,343
Less: Allowance for Uncollectible Accounts	(25,720)		
Loans to Students			4,886,350
Less: Loan Principal Collected			(2,827,189)
Loan Cancellations			(624,903)
Allowance for Doubtful Loans			(1,610)
Due from Federal Government		217,661	88,041
Investments	405,024		187,900
Inventories	270,234		
Prepaid Expenses	206,241	4,300	
Land			
Improvements			
Buildings			
Equipment			
Library Books			
TOTAL ASSETS	\$1,591,894	\$309,608	\$1,841,369
LIABILITIES			
Accounts Payable	\$853,206	\$201,355	\$4,018
Current Notes Payable			
Property Held for Others	34,705		
Advance Collections	491,412	7,503	
Bonds Payable			
Long Term Notes Payable			
Lease Payable			
Compensated Absences	856,218		
TOTAL LIABILITIES	\$2,235,541	\$208,858	\$4,018
FUND BALANCE			
Unrestricted	(\$643,647)		\$27,960
Restricted		100,750	1,809,391
TOTAL FUND BALANCE	(\$643,647)	\$100,750	\$1,837,351
TOTAL LIABILITIES AND FUND BALANCE	\$1,591,894	\$309,608	\$1,841,369

The notes to the financial statements are an integral part of this statement.

PLANT FUNDS

ENDOWMENT FUNDS	Unexpended	Renewal & Replacement	Retirement of Indebtedness	Investment in Plant	AGENCY FUNDS
\$97,587 51	(\$30,830) 1,142	\$22,771	\$78,223		\$181,373 38,842
13,077	353,415	158,865	3,254		8,245
				470,449 334,666 13,133,525 2,562,017 1,195,829	
\$110,715	\$323,727	\$181,636	\$81,477	\$17,696,486	\$228,460
	\$21,789	\$22,403	\$19,340	\$44,200	\$149,945 78,515
	29,285 122,645 27,700			2,822,355 1,199,878 41,799	
\$0	\$201,419	\$22,403	\$19,340	\$4,108,232	\$228,460
110,715	\$13,879 108,429	\$331 158,902	\$56,238 5,899	\$13,588,254	
\$110,715	\$122,308	\$159,233	\$62,137	\$13,588,254	\$0
\$110,715	\$323,727	\$181,636	\$81,477	\$17,696,486	\$228,460

MONTANA STATE UNIVERSITY - NORTHERN
(A COMPONENT UNIT OF THE STATE OF MONTANA)
STATEMENT OF CHANGES IN FUND BALANCES
FISCAL YEAR ENDED JUNE 30, 1999

	CURRENT FUNDS		LOAN FUNDS
	Unrestricted	Restricted	
REVENUES AND OTHER ADDITIONS			
Tuition and Fees	\$4,789,975		
State Appropriations	6,397,515		
Federal Grants and Contracts		\$3,838,035	\$84,015
State Grants and Contracts	103,502	116,898	28,005
Private Gifts and Grants		685,862	
Investment Income	39,132	6,488	11,522
Interest on Loans Receivable			31,057
Sales of Designated Services	584,708		
Sales of Auxiliary Enterprises	1,901,946		
Indirect Cost Recoveries	117,280		
Investment in Plant Facilities			
Retirement of Indebtedness			
Loan Proceeds			
Other	27,252		4,208
TOTAL REVENUES AND ADDITIONS	\$13,961,310	\$4,647,283	\$158,807
EXPENDITURES AND OTHER DEDUCTIONS			
Educational and General	\$11,023,555	\$4,651,497	
Auxiliary Enterprises	2,035,335		
Loan Cancellations			\$30,364
Administrative and Collection Costs			6,932
Expended for Plant Facilities			
Retirement of Indebtedness			
Interest on Indebtedness			
Incurment of Debt			
Other			
TOTAL EXPENDITURES AND DEDUCTIONS	\$13,058,890	\$4,651,497	\$37,296
TRANSFERS - ADDITIONS (DEDUCTIONS)			
Mandatory Transfers	(\$240,430)		
Nonmandatory Transfers	(324,513)		
TOTAL TRANSFERS	(\$564,943)	\$0	\$0
NET INCR (DECR) IN FUND BALANCE	\$337,477	(\$4,214)	\$121,511
BEGINNING FUND BALANCE	(1,017,357)	99,467	1,715,419
ADJUSTMENTS	36,233	5,497	421
MOVE EQUITY TO NET INVESTMENT IN PLANT			
ENDING FUND BALANCE	(\$643,647)	\$100,750	\$1,837,351

The notes to the financial statements are an integral part of this statement.

PLANT FUNDS

ENDOWMENT FUNDS	Unexpended	Renewal & Replacement	Retirement of Indebtedness	Investment in Plant
	\$253,800			
\$691	24,949	\$8,607	\$1,048	
				\$190,487
				391,607
	6,064			
\$691	\$284,813	\$8,607	\$1,048	\$582,094
	\$502,641			
	19,644	\$72,250	\$385,947	
			225,549	
				\$415,207
\$0	\$522,285	\$72,250	\$611,496	\$415,207
	(\$79,328)		\$319,758	
		\$30,000	294,513	
\$0	(\$79,328)	\$30,000	\$614,271	\$0
\$691	(\$316,800)	(\$33,643)	\$3,823	\$166,887
110,024	101,884	192,876	58,314	13,421,367
	337,224			
\$110,715	\$122,308	\$159,233	\$62,137	\$13,588,254

MONTANA STATE UNIVERSITY - NORTHERN
(A COMPONENT UNIT OF THE STATE OF MONTANA)
STATEMENT OF CURRENT FUND REVENUES, EXPENDITURES, AND OTHER CHANGES
FISCAL YEAR ENDED JUNE 30, 1999

	CURRENT FUNDS		
	Unrestricted	Restricted	TOTAL
REVENUES:			
Tuition and Fees	\$4,789,975		\$4,789,975
State Appropriations	6,397,515		6,397,515
Federal Grants and Contracts		\$3,838,035	3,838,035
State Grants and Contracts	103,502	116,898	220,400
Private Gifts and Grants		685,862	685,862
Investment Income	39,132	6,488	45,620
Sales of Designated Services	584,708		584,708
Sales of Auxiliary Enterprises	1,901,946		1,901,946
Indirect Cost Recoveries	117,280		117,280
Other Sources	27,252		27,252
TOTAL REVENUES	\$13,961,310	\$4,647,283	\$18,608,593
EXPENDITURES:			
Educational and General Funds:			
Instruction	\$5,400,956	\$1,117,567	\$6,518,523
Public Service	3,270	41,444	44,714
Academic Support	1,079,245	51,670	1,130,915
Student Services	1,420,142	1,043,961	2,464,103
Institutional Support	1,164,387	35,373	1,199,760
Operation and Maintenance of Plant	1,303,101	745	1,303,846
Scholarships and Fellowships	652,454	2,360,737	3,013,191
Educational and General Total	\$11,023,555	\$4,651,497	\$15,675,052
Auxiliary Enterprises:			
Expenditures	\$2,035,335		\$2,035,335
Nonmandatory Transfers	\$226,856		\$226,856
Mandatory Transfers	240,430		240,430
Auxiliary Enterprises Total	\$2,502,621		\$2,502,621
TOTAL EXPENDITURES AND TRANSFERS	\$13,526,176	\$4,651,497	\$18,177,673
OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS):			
Nonmandatory Transfers	(97,657)		(97,657)
TOTAL OTHER TRANSFERS AND ADDITIONS	(\$97,657)	\$0	(\$97,657)
NET INCREASE (DECREASE) IN FUND BALANCE	\$337,477	-\$4,214	\$333,263

The notes to the financial statements are an integral part of this statement.

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MONTANA STATE UNIVERSITY - NORTHERN
(A COMPONENT UNIT OF THE STATE OF MONTANA)
STATEMENT OF CHANGES IN FUND BALANCES
FISCAL YEAR ENDED JUNE 30, 1998

	CURRENT FUNDS		LOAN FUNDS
	Unrestricted	Restricted	
REVENUES AND OTHER ADDITIONS			
Tuition and Fees	\$4,561,573		
State Appropriations	6,349,934		
Federal Grants and Contracts		\$3,186,296	\$102,038
State Grants and Contracts	37,327	93,627	32,051
Private Gifts and Grants		912,089	
Investment Income	45,742	38,264	8,879
Interest on Loans Receivable			25,692
Sales of Designated Services	442,614		
Sales of Auxiliary Enterprises	1,809,629		
Indirect Cost Recoveries	131,978		
Investment in Plant Facilities			
Retirement of Indebtedness			
Bond Proceeds			
Other	4,190		3,632
TOTAL REVENUES AND ADDITIONS	\$13,382,987	\$4,230,276	\$172,292
EXPENDITURES AND OTHER DEDUCTIONS			
Educational and General	\$11,233,354	\$4,218,606	
Auxiliary Enterprises	1,946,442		
Loan Cancellations			\$16,337
Administrative and Collection Costs			9,858
Expended for Plant Facilities			
Retirement of Indebtedness			
Interest on Indebtedness			
Incurrment of Debt			
Disposal of Plant Facilities			
Other			
TOTAL EXPENDITURES AND DEDUCTIONS	\$13,179,796	\$4,218,606	\$26,195
TRANSFERS - ADDITIONS (DEDUCTIONS)			
Mandatory Transfers	(\$239,864)		
Nonmandatory Transfers	(272,886)		
TOTAL TRANSFERS	(\$512,750)	\$0	\$0
NET INCR (DECR) IN FUND BALANCE	(\$309,559)	\$11,670	\$146,097
BEGINNING FUND BALANCE	(726,862)	85,014	1,569,322
ADJUSTMENTS	19,064	2,783	
MOVE EQUITY TO NET INVESTMENT IN PLANT			
ENDING FUND BALANCE	(\$1,017,357)	\$99,467	\$1,715,419

The notes to the financial statements are an integral part of this statement.

PLANT FUNDS

ENDOWMENT FUNDS	Unexpended	Renewal & Replacement	Retirement of Indebtedness	Investment In Plant
	\$152,625			
\$9,000 483	9,702	\$15,310	\$2,645	
				\$1,422,145 44,520
			19,817 190	
\$9,483	\$162,327	\$15,310	\$22,652	\$1,466,665
	\$241,174			
	279,995	\$30,512	\$309,975 212,096	\$1,584,760 2,488,624
			18,108	
\$0	\$521,169	\$30,512	\$540,179	\$4,073,384
	(\$846)	\$30,000	\$240,530 243,066	
\$0	(\$846)	\$30,000	\$483,596	\$0
\$9,483	(\$359,688)	\$14,798	(\$33,931)	(\$2,606,719)
100,541	83,046	178,078	92,245	16,028,086
	378,526			
\$110,024	\$101,884	\$192,876	\$58,314	\$13,421,367

MONTANA STATE UNIVERSITY - NORTHERN
(A COMPONENT UNIT OF THE STATE OF MONTANA)
STATEMENT OF CURRENT FUND REVENUES, EXPENDITURES, AND OTHER CHANGES
FISCAL YEAR ENDED JUNE 30, 1998

	CURRENT FUNDS		
	Unrestricted	Restricted	TOTAL
REVENUES:			
Tuition and Fees	\$4,561,573		\$4,561,573
State Appropriations	6,349,934		6,349,934
Federal Grants and Contracts		\$3,186,296	3,186,296
State Grants and Contracts	37,327	93,627	130,954
Private Gifts and Grants		912,089	912,089
Investment Income	45,742	38,264	84,006
Sales of Designated Services	442,614		442,614
Sales of Auxiliary Enterprises	1,809,629		1,809,629
Indirect Cost Recoveries	131,978		131,978
Other Sources	4,190	.	4,190
TOTAL REVENUES	\$13,382,987	\$4,230,276	\$17,613,263
EXPENDITURES:			
Educational and General Funds:			
Instruction	\$5,505,442	\$1,231,063	\$6,736,505
Public Service	11,816	85,620	97,436
Academic Support	1,132,558	16,426	1,148,984
Student Services	1,423,501	938,369	2,361,870
Institutional Support	1,361,968	20,841	1,382,809
Operation and Maintenance of Plant	1,180,652	68	1,180,720
Scholarships and Fellowships	617,417	1,926,219	2,543,636
Educational and General Total	\$11,233,354	\$4,218,606	\$15,451,960
Auxiliary Enterprises:			
Expenditures	\$1,946,442		\$1,946,442
Nonmandatory Transfers	239,864		239,864
Mandatory Transfers	200,286		200,286
Auxiliary Enterprises Total	\$2,386,592		\$2,386,592
TOTAL EXPENDITURES AND TRANSFERS	\$13,619,946	\$4,218,606	\$17,838,552
OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS):			
Nonmandatory Transfers	(72,600)		(72,600)
TOTAL OTHER TRANSFERS AND ADDITIONS	(72,600)	0	(72,600)
NET INCREASE (DECREASE) IN FUND BALANCE	(309,559)	11,670	(297,889)

The notes to the financial statements are an integral part of this statement.

MONTANA STATE UNIVERSITY - NORTHERN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1999

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

In January 1994, the Montana Board of Regents of Higher Education approved the restructuring of the Montana University System. As part of that restructuring, effective July 1, 1994, Montana State University - Bozeman was given administrative oversight of Northern Montana College and the name of the institution was changed to Montana State University - Northern (MSU-Northern). The accompanying financial statements represent the activities of MSU-Northern only and exclude financial activity of MSU-Bozeman.

The Montana University System is a legal and financial component unit of the State of Montana and is governed by the Board of Regents of Higher Education. Board members are appointed by the Governor.

Montana State University - Northern follows the standards of accounting and reporting as described by National Association of College and University Business Officers (NACUBO). In accordance with Governmental Accounting Standard number 15, "Governmental College and University Accounting and Reporting Models," the University has adopted the American Institute of Certified Public Accountants' (AICPA) "College Guide Model."

The financial statements of Montana State University - Northern are included as a component unit of the State of Montana General Purpose Financial Statements which are prepared annually and presented in the Montana Comprehensive Annual Financial Report.

Accrual Basis

The financial statements have been prepared on the full accrual basis in accordance with generally accepted accounting principles for colleges and universities. The statement of current fund revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses.

To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as: 1) expenditures, in the case of normal replacement of movable

equipment; 2) mandatory transfers, in the case of required provisions of debt amortization and interest; and 3) transfers of a nonmandatory nature in all other cases.

Fund balance for the current unrestricted fund includes the unfunded liability of \$856,218 for compensated absences payable.

Fund Accounting

The accounts of the university are maintained in accordance with the principles of fund accounting wherein resources are classified for accounting purposes into funds that are identified by the limitations and restrictions placed on their use. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group:

Current funds - include all unrestricted and restricted resources, which are available for support of operations. Funds included in this classification consist of:

General Operating funds - funds used to account for transactions relating to the educational and general operations of the University.

Designated funds - funds used to account for educational related and charge back activities, which are essentially self-supporting. Resources in this fund group have been designated for specific purposes by the University.

Auxiliary funds - funds used to account for transactions of substantially self-supporting activities that primarily provide services for students, faculty and staff. Auxiliary enterprises include, but are not limited to, student housing, bookstore and food services.

Restricted funds - funds used to account for current funds expended for operating purposes but restricted by donors or other outside agencies as to how they may be spent.

Loan funds - include amounts received from donors, governmental agencies and mandatory institutional matching grants which are restricted for use in making loans to students.

Endowment funds - include amounts that are subject to specific donor or other outside agency restrictions prohibiting the expenditure of the principal. Generally, the principal is to be maintained in perpetuity and invested to produce income. The income is used for student scholarships based upon the donor's instruction.

Plant funds - are separated into four distinct subgroups with self-balancing accounts:

Unexpended - utilized for acquisition of long-term institutional assets.

Renewal and Replacement - utilized for maintenance of long-term institutional assets.

Retirement of Indebtedness - utilized for debt service charges and retirement of indebtedness on long-term institutional assets.

Net Investment in Plant - denotes the cost of long-term institutional assets and associated liabilities.

Agency funds - include assets held by the institution as a custodian or fiscal agent for other organizations or individuals.

Plant Assets and Depreciation

Investment in plant represents an accumulation of the cost of purchased assets net of trade-in amounts. Gifts are recorded at market value when received. Buildings are recorded at historically based appraisal values with subsequent additions at cost. Assets purchased are recorded as expenditures in the various funds in the year of purchase. Depreciation on physical plant and equipment is not recorded.

Investments

All gains and losses from the sale or disposition of investments, except for income derived from investments of endowment fund moneys, are recorded as revenues of the fund in which the investments are recorded. Gains and losses on endowment investments are recorded as stipulated by restrictions on each endowment.

Inventories

Inventories primarily consist of textbooks and schools supplies and are valued according to the first in - first out (FIFO) basis at cost.

Note 2 – CHANGES IN ACCOUNTING AND REPORTING

Change in Investment Policy:

Effective July 1, 1997, State law was changed to authorize the University to invest excess funds held in the General Operating and Designated fund groups. Investment earnings on those funds were projected and general fund appropriations were reduced accordingly.

Change in Capitalization Policy:

The State of Montana fixed asset capitalization policy was changed July 1, 1997. The

capitalization level was increased from a unit value of \$1,000 to a unit value of \$5,000. In fiscal year 1998 equipment with unit values of less than \$5,000 and total value of \$2,461,890 were removed from the University's financial records. ~

Note 3 - CASH EQUIVALENTS AND INVESTMENTS

Investments consist primarily of amounts invested through the Montana State Board of Investments using its short-term investment pool (STIP) and by the trustees as required by the bond indenture. The university's Endowment Fund principal is managed by the Montana State University - Northern Development Foundation and is invested in a certificate of deposit. The STIP portfolio includes asset-backed securities, banker's acceptances, certificates of deposit, commercial paper, corporate and government securities, repurchase agreements and variable-rate instruments. STIP investments are recorded at amortized cost. The STIP unit value is fixed at \$1.00. All STIP, bond trustee and MSU-Northern Development Foundation investments comprise government securities that are classified in risk category 1. Risk category 1 includes investments that are insured, registered or uninsured, unregistered securities held by the state or its agent in the state's name.

Effective for years beginning after June 15, 1997, GASB 31 requires certain investments to be reported at fair value. In accordance with GASB 31, investments maturing within one year or less at the time of purchase are recorded at amortized cost. Investments with maturities of one year or more are recorded at fair market value, which is obtained from the trustee statement. The difference between cost and market value of investments at June 30, 1999 was \$2,852. Investment income is generally recorded when received. Investment depreciation in fair market value of \$500 was recorded in the financial statements for the fiscal year 1999.

Under the provision of state statutes, the Montana Board of Investments authorized the custodial bank to lend its securities to entities with simultaneous agreements to return collateral for the same securities in the future. The Board lent certain securities and received US dollar currency cash, US governmental securities and irrevocable bank letters of credit. The custodial bank does not have the ability to pledge or sell collateral securities unless the borrower defaults. During the loan period, the Board retains all rights and risks of ownership. There were not restrictions on the amount of securities loaned. There were no losses resulting from default of borrowers and the Board had no credit exposure to borrowers. The relationship between the average maturities of the investment pool and loans was affected by the maturities of loans made by other entities that invested cash collateral in the collective investment pool, which the Board could not determine. The securities lending Investment Pool recorded in the financial statements is \$46,364, which is not categorized.

Cash Equivalents and Investments at June 30, 1999 are as follows:

	Held by the State of Montana <u>Board of Investments</u>	Held by the <u>Foundation</u>	Held by <u>Trustee</u>
Cash Equivalents	\$867,155		\$ 66,707
Investments		\$97,532	\$143,488
Total	<u>\$867,155</u>	<u>\$97,532</u>	<u>\$210,195</u>

Note 4 - BONDS PAYABLE

Series 1994-C

On June 16, 1994, Montana State University (consisting of MSU-Bozeman, MSU-Billings and MSU-Northern) issued Series C 1994 Revenue Bonds. The MSU-Northern share of the bonds issued amounted to \$2,890,000 with an interest rate of 3.3% graduating to 5.75%. \$1,349,072 of the bond proceeds were deposited into an irrevocable trust with an escrow agent to advance refund the Auxiliary Facilities and Student Building Fees Revenue Bonds Series A 1987 which had an interest rate ranging from 7% to 8.75%. The escrow agent invested the bond proceeds in U.S. government securities until the bonds maturing on and after October 1, 1998, and December 15, 1998 are redeemed by optional redemption on October 1, 1997, and June 15, 1998, respectively. The outstanding bonds maturing before October 1, 1997, will be paid by the escrow agent on their normal payment dates. The advance refunding met the requirements of a legal defeasance and the 1987 Series A Bond liability has been removed from the University's financial records. The purpose of the refunding was to take advantage of savings that resulted from lower interest rates. The advance refunding resulted in the recognition of an accounting loss of \$94,072 for the fiscal year ending June 30, 1994. The economic gain calculated using an effective interest rate of 5.35% is \$78,664. At June 30, 1997, the principal balance of the defeased bonds is \$1,050,000.

The balance of the bond proceeds, after bond issuance costs, will be utilized for auxiliary facilities renovation projects in the amount of \$1,450,000. The Series C 1994 Revenue Bonds are payable solely from auxiliary facilities revenues, student fee revenues, and earnings from investments of certain funds and accounts created under the bond indenture.

As of June 30, 1999, the university had \$2,445,000 in outstanding Series 1994 C revenue bonds payable. The annual debt service requirements for the next five years, including interest, are as follows:

Fiscal Year Ending June 30	Payment Amount
2000	\$ 240,559
2001	240,262
2002	239,638
2003	238,703
2004	242,230
2005-2015	2,501,469
	<u>\$3,702,860</u>

Series 1998-F

On, June 1, 1998, Montana State University issued Series 1998 revenue bonds. MSU-Northern's share of the bonds was \$560,000, with interest rates ranging from 3.65% to 4.3%. The proceeds from the sale of the bond were used for the purchase and implementation of new computing hardware, infrastructure and the associated software that is fully compliant with Year 2000 demands.

The Series F 1998 bonds payable is secured by an additional pledged revenue of a new student information technology fee.

As of June 30, 1999, the university had \$500,000 in outstanding Series 1998 F revenue bonds payable. The annual debt service requirements for the next five years, including interest, are as follows:

Fiscal Year Ending June 30	Payment Amount
2000	\$ 84,159
2001	81,640
2002	83,973
2003	81,137
2004	83,146
2005-2015	163,161
	<u>\$577,216</u>

Note 5 - RELATED PARTIES NOTES PAYABLE

As of June 30, 1999 MSU-Northern has the following outstanding balances on notes received from Montana State University – Northern Development foundation:

A \$48,963 note payable with interest of 6.5% for the purchase of a voice mail system. Annual payments of \$19,062 are due starting October 15, 2000.

A \$12,500 note payable with interest of 6.5% for the purchase of a van. Annual payments of \$2,495 are due starting October 1, 1999.

A \$44,200 note payable with interest of 6.5% for the purchase of a vehicle and equipment for the motor cycle safety program. The entire balance of the note is due October 1, 1999.

The annual debt service requirements on the principal follows, are as follows:

Fiscal Year Ending June 30	Payment Amount
2000	\$ 46,327
2001	16,081
2002	18,746
2003	19,964
2004	2,200
2005-2015	2,346
	<u>\$105,663</u>

Note 6 - NOTES PAYABLE

As of June 30, 1999 the outstanding balance on INTERCAP notes payable consist of the following:

Renovation of Gymnasium and Swimming Pool - \$646,292 loan approved July 30, 1993 for the renovation of the gymnasium and swimming pool. \$325,468

Science Lab Renovation and Multi-media Equipment - \$362,355 loan for the Science Lab renovation and a \$304,500 loan for multi-media equipment were approved December 31, 1994. These loans will enhance the Water Quality-Environmental Science programs. The loans will be paid from Resource Indemnity Trust Funds provided for in Section 15-38-202, MCA. Effective July 1, 1994, Section 15-38-202, MCA appropriated \$240,000 to support the operations of the Water Quality-Environmental Science instructional programs at MSU-Northern. \$319,483

Energy Conservation - \$444,733 loan approved October 31, 1996 for remodel of campus buildings to increase energy efficiency. \$382,391

Parking Lot/Road Improvements - \$167,835 loan approved October 31, 1996 for campus road construction and parking lot/road improvements. \$138,773

Total INTERCAP Notes Payable	\$1,166,115
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INTERCAP is a Board of Investments program that provides loans for up to 10 years. The program can be used to finance vehicles, equipment, real property improvements and to refinance existing contracts that originally financed these items. The program has been in place since 1987 and has been used extensively by Montana cities, towns, counties and school districts. Legislation passed in the 1991 legislative session now permits the Montana University System to participate in the Board of Investments INTERCAP program.

INTERCAP loans bear a variable interest rate that adjusts each March 1. The average rate over the life of the program has been approximately 6.2%. There is a loan commitment fee of .5% of the loan amount. A 1.5% discount that defrays Board of Investment program costs is also added to the loan amount. Loan payments are due February 15 and August 15 of each year.

Future INTERCAP loan principal payments as of June 30, 1997 are as follows:

Fiscal Year Ending June 30	Payment Amount
2000	\$ 215,783
2001	166,592
2002	164,422
2003	172,021
2004	140,748
2005-2015	306,548
	<u>\$1,166,155</u>

Note 7 - CAPITAL LEASES

As of June 30, 1999 capital leases consisted of the following:

XEROX 1090 Copier – On October 1, 1995, MSU-Northern entered into a lease agreement for a large volume copy machine. The lease required monthly payments of \$420 for five years with interest accruing at 9%.

\$5,934

The following capital leases represent financing obtained through a “Master finance Agreement” between the State of Montana Department of Administration and Norwest Investment Services, Incorporated. This agreement provides a procedure for agencies of the State of Montana to obtain financing for equipment purchases.

NORWEST Bank Computer Services #1 – On January 16, 1997, MSU-Northern borrowed \$26,870 to finance the purchase of computers, peripherals and accessories. The lease required three annual payments of \$10,042 with interest accruing at 5.73%.

9,498

NORWEST Bank Computer Services #2 – On January 31, 1997, MSU-Northern borrowed \$26,870 to finance the acquisition of computers, peripherals and furniture. The lease requires three annual payments of \$10,030 with interest accruing at 5.88%

9,473

NORWEST Bank Physical Plant Equipment – On May 12, 1997, MSU-Northern borrowed \$26,605 to finance the acquisition of a commercial lawn mower and floor scrubber. The lease requires five annual installments of \$6,330 with interest accruing at 6.08%

16,984

Total Capital Leases

\$41,799

Future capital lease principal payments at June 30, 1999 consist of the following:

Fiscal Year Ending June 30	Payment Amount
2000	\$ 28,967
2001	6,865
2002	5,967
	<u>\$ 41,799</u>

Note 8 - COMPENSATED ABSENCES

Eligible university employees earn eight hours sick and ten hours annual leave for each month worked. The annual leave earned increases with longevity. Employees may accumulate annual leave up to twice their annual accrual amount and sick leave may accumulate without limitation. The accumulated liability for compensated absences totaled \$856,218 at June 30, 1999.

Note 9 - RETIREMENT PROGRAMS

Retirement benefits are provided for academic and certain professional staff through the Montana Teachers' Retirement System (TRS) and all other staff through the Montana Public Employees' Retirement System (PERS). Both plans are administered by the state of Montana. During fiscal year 1987-88, an optional retirement plan through the Teachers Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF) was made available to contract faculty and certain professional administrative employees.

Pension Benefit Obligation information is not available on an agency basis, but is available on a statewide basis from the Montana Retirement Systems. The reports can be obtained from:

PERS	TRS	TIAA-CREF
P.O. Box 200131	1500 Sixth Avenue	Republic Plaza, Suite 200
1712 Ninth Avenue	Helena, MT 59620	370 Seventeen Street
Helena, MT 59620	(406) 444-3134	Denver, CO 80202-5602
(406) 444-2154		(800) 842-2776

Defined Benefit Plans

Teachers' Retirement System

The Teachers' Retirement System is a mandatory system established in 1937 and governed by Title 19, Chapter 20, MCA. Teachers' Retirement System participants are eligible to retire with a minimum 25 years of membership service or five years of creditable service at age 60. A retirement benefit is 1/60 times the years of service times average final compensation. An employee is vested in TRS

following completion of five years of creditable service. Vested employees may retire at or after age 50 and receive a reduced retirement benefit.

Public Employees' Retirement System

Established in 1945 and governed by Title 19, Chapter 3, MCA, Public Employees' Retirement System (PERS) participants are eligible to retire at age 60 with at least five years of service, at age 65 regardless of length of service or at 30 years of service regardless of age. A reduced retirement benefit may be taken with 25 years of service or at age 50 with a minimum of five years of service. Effective January 1, 1989, monthly retirement benefits are calculated by taking 1/56 times the years of service times the final average salary. Vesting occurs once membership service totals 5 years.

Defined Contribution Plan

The Optional Retirement Program (ORP), a defined contribution plan established under the authority of Title 19, Chapter 21, MCA, provides benefits at retirement which are dependent upon the amount of contributions, investment gains and losses, employee's life expectancy, and the selected contract option.

Retirement Plan Information for the fiscal year ended June 30, 1999:

	PERS	TRS	OPR
Covered Payroll	\$1,897,500	\$4,477,309	\$1,910,997
Total Payroll	7,699,392	7,699,392	7,699,392
Employer Contributions	129,030	334,455	94,709
Percent of Covered Payroll	6.800%	7.470%	4.956%
Employee Contributions	129,665	315,382	136,611
Percent of Covered Payroll	6.800%	7.044%	7,044%

Retirement Plan Information for the fiscal year ended June 30, 1998:

	PERS	TRS	OPR
Covered Payroll	\$1,950,836	\$3,365,738	\$1,933,616
Total Payroll	7,767,276	7,767,276	7,767,276
Employer Contributions	130,706	251,241	95,830
Percent of Covered Payroll	6.700%	7.470%	4.956%
Employee Contributions	130,706	237,083	136,204
Percent of Covered Payroll	6.700%	7.044%	7,044%

For ORP participants, a total of \$48,398 or 2.503% in 1998 and \$47,832 or 2.503% in 1999 was contributed to TRS from employer contributions to amortize past service unfunded liability in accordance with Title 19, Chapter 21, MCA.

Note 10 - AFFILIATED ORGANIZATIONS

Montana State University - Northern is a component unit of the State of Montana. These financial statements include only the activities, funds, and accounts of the University. Private nonprofit organizations affiliated with the University include the Montana State University - Northern Development Foundation and the Montana State University - Northern Alumni Association. The foundation and association operate exclusively for the purposes of encouraging, promoting, and supporting educational programs, scholarly pursuits and athletics at the University. During the fiscal year ending June 30, 1999, the foundation contributed to the University \$197,135 for scholarships and \$181,703 for academic and instructional support. In exchange, the University provides the foundation with office space and an annually contracted fee of \$118,553; and the association with office space, staff, and some related office expenses.

Note 11 - ALLOWANCE FOR DOUBTFUL ACCOUNTS - LOAN FUNDS

No provision for uncollectible federal Perkins loans, formerly National Direct Student Loans, has been provided for in the accompanying financial statements. The university follows accounting practices for the Perkins Loan Fund, formerly National Direct Student Loan Fund, that are in accordance with government regulations. The regulations do not provide for recognition of interest receivable, uncollectible loans or future loan principal reductions by the government. To that extent, the portion of the financial statements relating to loan funds is at variance with generally accepted accounting principles. However, 90% of any interest receivable or uncollectible loans and 100% of government principal reductions would add to or reduce the U.S. Government's portion of the fund balance and, therefore, would not have a significant effect on the overall financial position of the university.

Note 12- YEAR 2000

The year 2000 (Y2K) issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the operations of the University beginning in the year 1999. The problem is that many computer programs use only the last two digits when referring to a year. Many programs will not be able to distinguish between the year 2000 and the year 1900. This may cause inaccurate processing of information or a complete halt to processing.

The University has been addressing the Y2K issue for the last two years. The major administrative support systems have been upgraded to systems that are Year 2000 compliant. These systems include Finance (purchasing, payables and accounting),

Human Resources (personnel and payroll) and Student (billing, financial aid, admissions and registrar).

The University does not anticipate any disruption of services as a result of non-compliant internal systems. However, because of the unprecedented nature of the Y2K issue and the interaction and dependence on third parties, the effects of and the success of remedial efforts will not be fully determinable until fiscal year 2000 and thereafter.

Agency Responses



Office of the President

211 Montana Hall
P.O. Box 172420
Bozeman, MT 59717-2420

Telephone (406) 994-2341
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March 3, 2000

Mr. Scott A. Seacat
Legislative Auditor
Legislative Audit Division
State Capitol, Room 135
P.O. Box 201705
Helena, MT 59620-1705

Dear Mr. Seacat:

Enclosed you will find Montana State University's responses to the recommendations outlined in the narrative segment of the our Financial-Compliance Audit Report.

Montana State University would like to thank the Legislative Audit Division's efforts in regards to the Financial-Compliance Audit of March 2000. This productive audit illuminated many concerns shared by your office and the offices of the MSU campuses.

Sincerely,

A handwritten signature in cursive script, appearing to read "Terry P. Roark".

Terry Roark
President

Enclosure

MAR 6 2000

MONTANA STATE UNIVERSITY

Response to Audit Recommendations

Fiscal Years 1997-98 & 1998-99

Recommendation #1

We recommend the university define and implement additional internal controls at MSU-Bozeman to ensure the safeguarding of university assets within the central cashiering function.

Montana State University concurs.

MSU Administration requested the Business Office fulfill the recommendations offered by Internal Audit. Processes were initiated in January 2000. Further improvements began in March 2000 with ongoing process enhancement as identified by management and Internal Audit.

Recommendation #2

We recommend the university:

- A. Monitor deposit activity in the cashiers' cage and establish contingency plans at MSU-Bozeman to deal with increased activity to ensure timely deposits in compliance with state law.
- B. Improve procedures to monitor and enforce deposit requirements at campus departments.

Montana State University concurs.

- A. Staffing and process plans were enhanced to facilitate more timely processing during peak business periods. Management will continue to monitor and make appropriate changes.
- B. Business Office management and Internal Audit will continue to monitor and educate the university community on internal control issues and MCA §17-6-105 which necessitates timely deposits. Improvement as noted in MSU's response to Recommendation #1 will extend to this area.

Recommendation #3

We recommend the university implement controls to detect and correct errors in accounts receivable records at MSU-Bozeman in order to safeguard accounts receivables.

Montana State University concurs.

Policy and procedure to ensure timely analysis and review of the reconciliation process for accounts receivable was initiated in March 2000 and will be fully implemented by December 2000.

Recommendation #4

We recommend the university initiate additional collection procedures on accounts in its bad debt file at MSU-Bozeman.

Montana State University concurs.

Collection procedures in the bad debt file will be initiated by Fiscal Year End 2000.

Recommendation #5

We recommend the Commissioner of Higher Education propose amendments to board policy which define terms used to designate funding sources to achieve consistency in university capital projects authorizations and appropriations.

Montana State University concurs.

The Office of the Commissioner of Higher Education will respond under separate cover.

Recommendation #6

We recommend the university follow state law applicable to advertising, bidding, approval, and supervision of construction of athletic facilities' projects at MSU-Bozeman.

Montana State University concurs.

As noted in the audit report, MSU-Bozeman strives to follow applicable state law and procedure. For example, MSU took corrective action on the student weight room project immediately following notification from LAD of their interpretation of Chapter 478, section 2, Laws of 1995 in regard to this subject.

Recommendation #7

We recommend the Board of Regents require university units to specify funding sources for proposed construction projects.

Montana State University concurs.

The Office of the Commissioner of Higher Education will respond under separate cover.

Recommendation #8

We recommend the university's MSU-Bozeman Campus:

- A. Implement procedures to assure the accuracy of construction work in progress recorded on the accounting records.
- B. Develop procedures to expedite preparation of its annual financial statements.
- C. Work with the Department of Administration to resolve the difference in reporting land and land improvements.
- D. Coordinate responsibility for the financial reporting function.

Montana State University concurs.

- A. Effective immediately, the Controller is designated to receive information regarding projects under construction and projects completed, and will identify how the results will be recorded on the financial record. The Property Manager will then enter the information in the applicable property records to accurately reflect said decisions; thus, minimizing duplication or loss of information.

- B. MSU continues to develop procedures and designate appropriate staff to facilitate preparation of the financial statements in a more timely fashion to meet State deadlines.
- C. MSU-Bozeman will ensure that these separations are made annually, effective with the fiscal year ending June 30, 2000.
- D. Effective immediately, the Controller will serve as the central point of contact between the University and the Department of Administration Accounting Bureau, with respect to financial reporting for the University.

Recommendation #9

We recommend the university:

- A. Determine the amount of and maintain accountability for MSU-Bozeman assets managed, revenues received, and expenses paid by the Research & Development Institute.
- B. Include provisions in the contract with the Research & Development Institute to ensure MSU-Bozeman receives timely information on assets managed, revenues received, and expenses paid.

Montana State University concurs.

- A. MSU believes it has maintained compliance with this recommendation. Satisfying recommendation #9B will preclude further misunderstandings between MSU, RDI, and LAD.
- B. MSU is in the process of negotiating a new memorandum of understanding with language to clarify said accounting issues.

Recommendation #10

We recommend the Department of Administration, the Commissioner of Higher Education, and MSU-Bozeman evaluate whether the assets and financial activity of the Research & Development Institute should be included in MSU-Bozeman financial statements and the state's Comprehensive Annual Financial Report.

Montana State University concurs.

MSU will work with the Commissioner of Higher Education to seek the opinion of the Department of Administration regarding this matter.

Recommendation #11

We recommend the university complete a reconciliation of detail and summary information at fiscal year-end and resolve any differences between its grants system at MSU-Bozeman and the state's records on a timely basis.

Montana State University concurs.

MSU's conversion to the new Banner administrative software system will not allow these differences to occur since the grants ledger is part of the operating ledger rather than a subset as in the past.

Recommendation #12

We recommend the university:

- A. Ensure the MSU-Bozeman property manager follows requirements related to disposal of assets purchased with federal funds.
- B. Use depreciation in calculating MSU-Bozeman motor pool rates as required by federal regulations.
- C. Charge payroll costs to grants at MSU-Northern based upon certified time and effort reports.

Montana State University concurs.

- A. Prior to this issue being brought to our attention by LAD, MSU implemented new control procedures to ensure that Federal property is disposed of in full accord with governing State and Federal regulations, based upon information provided by the Federal Excess Property agency obtained in July 1999.
- B. Beginning in Fiscal Year 2000-2001, MSU-Bozeman will begin calculating depreciation on vehicles within the motor pool.

- C. For the audit period, MSU-Northern had systems in place which capture actual time worked on grants for hourly employees and temporary positions. In February 2000, a tracking system was developed to identify salaried grant positions to ensure all time and effort certifications are documented including those positions 100% grant funded.

Recommendation #13

We recommend the university establish controls at MSU-Northern to ensure payroll input and approval is supported by supporting documentation.

Montana State University concurs.

MSU-Northern is currently drafting specifications for a payroll management report. The report will identify changes to payroll records and types of payroll activity such as overtime or additional compensation. Appropriate staff will analyze this report and respond accordingly.

Recommendation #14

We recommend the university record expenditure abatements at MSU-Bozeman only for those transactions allowed by state and university policy.

Montana State University concurs.

The Controller's Office and Internal Audit will continue to educate the university community on properly recording expenditure abatements. Included in management report development in Banner are tools to identify potential expenditure abatements.

Recommendation #15

We recommend the university comply with state law by ensuring loans payable, construction work in progress, and library books are recorded on the state's accounting records in compliance with state accounting policy.

Montana State University concurs.

Effective with fiscal year ending June 30, 2000, procedures will be developed and will be applied to ensure that State Inter-cap and other loans are being properly recorded as liabilities in University records. MSU-Great Falls properly reflected construction work in progress in the fiscal year ended 1999. Policies and procedures will be evaluated to ensure MSU-Bozeman complies with the state accounting policy with regard to library books for the fiscal year ended 2000.

Recommendation #16

We recommend the university develop procedures for each campus with fixed responsibility for reporting apparent and suspected thefts in compliance with state law.

Montana State University concurs.

Each of MSU's four campuses has identified staff that is aware of situations requiring reporting and that coordinates said reporting of theft reports through the Internal Audit department.



MONTANA UNIVERSITY SYSTEM
OFFICE OF COMMISSIONER OF HIGHER EDUCATION

2500 BROADWAY ♦ PO BOX 203101 ♦ HELENA, MONTANA 59620-3101 (406)444-6570 FAX (406)444-1469

MAR 3 2000

March 2, 2000

Mr. Scott Seacat
Legislative Auditor
P.O. Box 201705
616 Helena Ave.
Helena, MT 59620-1705

Dear Mr. Seacat:

Enclosed is a response to the recommendations directed to the Commissioner of Higher Education and the Board of Regents, which were contained in the Montana State University audit report. We concur with both recommendations and will implement the recommendations on a system-wide basis.

Sincerely,

A handwritten signature in cursive script, appearing to read "Rod Sundsted".

Rod Sundsted
Associate Commissioner for Fiscal Affairs

Recommendation # 5

We recommend the Commissioner of Higher Education propose amendments to board policy which define terms used to designate funding sources to achieve consistency in university capital projects authorizations and appropriations.

Recommendation #7

We recommend the Board of Regents require university units to specify funding sources for proposed construction projects.

Response:

We concur with the recommendations. Recommendations #5 and #7 deal with capital projects and are closely related. Both recommendations will be implemented through revision to Board of Regents Policy. A revised policy incorporating the recommendations will be drafted for submission at the Board of Regents meeting on May 18-19, 2000.

Recommendation #10

We recommend the Department of Administration, the Commissioner of Higher Education, and MSU-Bozeman evaluate whether the assets and financial activity of the Research & Development Institute should be included in the MSU-Bozeman financial statements and the state's Comprehensive Annual Financial Report.

Response:

We concur with the recommendation. We have already begun an analysis as recommended. We will cooperate with the Department of Administration as we proceed.

DEPARTMENT OF ADMINISTRATION
DIRECTOR'S OFFICE



MARC RACICOT, GOVERNOR

MITCHELL BUILDING

STATE OF MONTANA

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PO BOX 200101
HELENA, MONTANA 59620-0101

March 1, 2000

Scott A. Seacat
Legislative Auditor
Legislative Audit Division
616 Helena Avenue - Steamboat Block
Helena, MT 59620-1705

Dear Mr. Seacat:

We have reviewed your report on the audit of Montana State University, which has an impact on the department and state accounting policy. Our responses follow:

RECOMMENDATION #8: WE RECOMMEND THE UNIVERSITY:

- D. WORK WITH THE DEPARTMENT OF ADMINISTRATION TO RESOLVE THE DIFFERENCE IN REPORTING LAND AND LAND IMPROVEMENTS.

Response: We concur. We will work with MSU-Bozeman to ensure that land and land improvements are reported on the financial records in accordance with generally accepted accounting principles and state accounting policy.

RECOMMENDATION #10: WE RECOMMEND THE DEPARTMENT OF ADMINISTRATION, THE COMMISSIONER OF HIGHER EDUCATION AND MSU-BOZEMAN EVALUATE WHETHER THE ASSETS AND FINANCIAL ACTIVITY OF THE RESEARCH & DEVELOPMENT INSTITUTE SHOULD BE INCLUDED IN MSU-BOZEMAN FINANCIAL STATEMENTS AND THE STATE'S COMPREHENSIVE ANNUAL FINANCIAL REPORT.

Response: We concur. The Accounting Bureau has issued state accounting policy (Management Memo 2-95-3) to assist in determining when outside organizations should be included as part of the financial reporting entity. We will work with the Commissioner of Higher Education and MSU-Bozeman to apply this policy and determine the financial reporting status of the Research & Development Institute.

We appreciate the opportunity to work with your staff on these issues.

Sincerely,

A handwritten signature in cursive script, reading "Lois Menzies".

LOIS MENZIES
Director

MAR 2 2000

